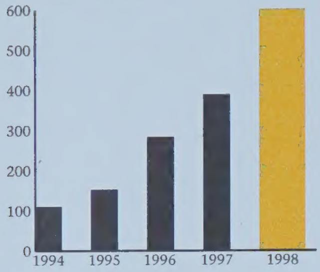
# R&R

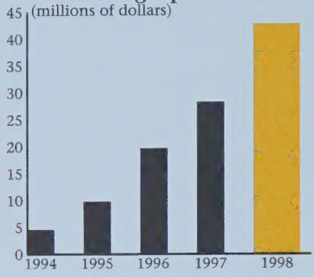
INTRAWEST. FOR THE TIMES OF YOUR LIFE.

1998 Annual Report

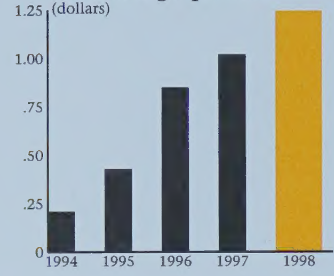
**Revenue**
(millions of dollars)



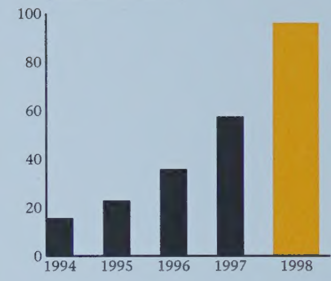

**Income From Continuing Operations**
(millions of dollars)



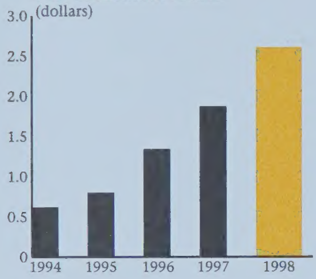

**Income Per Share From Continuing Operations**
(dollars)



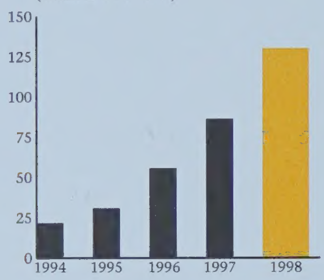

**Cash Flow**
(millions of dollars)



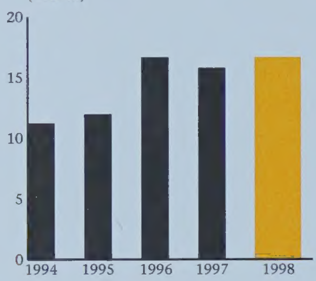

**Cash Flow Per Common Share**
(dollars)



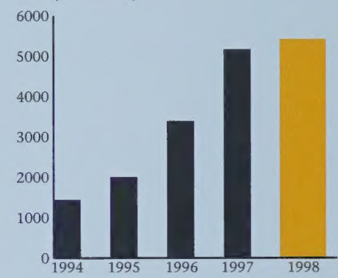

**Total Company EBITDA**
(millions of dollars)



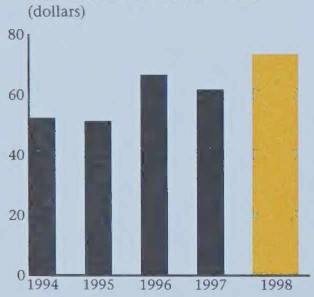

**Ski EBITDA Per Skier Visit**
(dollars)



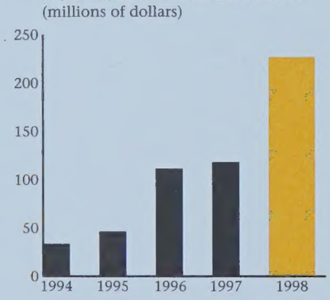

**Skier Visits**
(thousands)



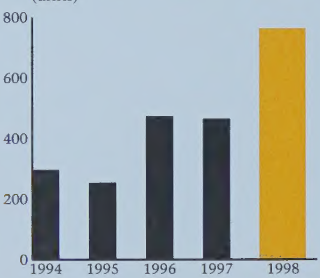

**Revenue Per Skier Visit**
(dollars)



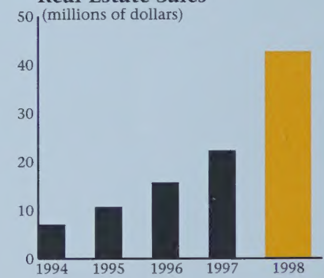

**Real Estate Sales Revenue**
(millions of dollars)



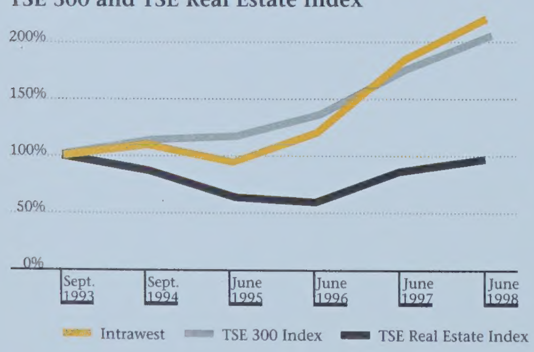

**Closed Real Estate Sales**
(units)



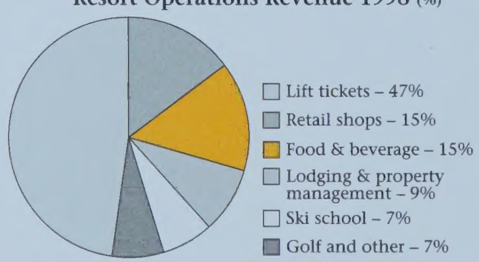

**Operating Profit From Real Estate Sales**
(millions of dollars)



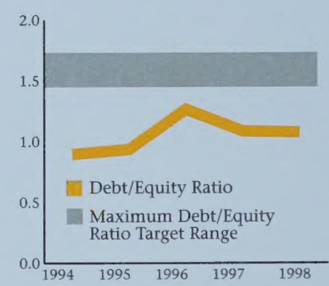

**Intrawest Share Price Compared With TSE 300 and TSE Real Estate Index**




**Diversified Revenue Sources Resort Operations Revenue 1998** (%)




**Debt/Equity Ratio**




## KEY RATIOS

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **Value Ratios** | | | | | |
| Income per common share from continuing operations ($) | 1.25 | 1.02 | 0.85 | 0.43 | 0.21 |
| Cash flow per common share ($) | 2.60 | 1.87 | 1.34 | 0.80 | 0.62 |
| Book value per common share ($) | 15.04 | 12.00 | 12.57 | 12.00 | 11.63 |
| Price to earnings (x) | 23.4 | 21.8 | 19.0 | 23.0 | 18.9 |
| **Margins** | | | | | |
| Ski EBITDA/Ski revenue (%) | 22.64 | 25.60 | 25.03 | 23.36 | 21.46 |
| Real estate profit/Real estate revenue (%) | 18.91 | 18.89 | 14.09 | 16.72 | 21.26 |
| **Debt** | | | | | |
| Debt/Equity (x) | 0.94 | 0.98 | 1.31 | 1.13 | 1.12 |
| EBITDA interest coverage (x) | 3.70 | 3.14 | 2.42 | 2.41 | 2.17 |

Note: 1) The company changed its year end to June 30, effective in 1995. The 1995 figures reflect a nine-month operating period to June 30, 1995.
2) EBITDA = Net earnings before interest, taxes, depreciation and amortization.

## FIVE-YEAR HISTORICAL REVIEW

| Fiscal year ended | 1998 | 1997 | 1996 | 1995* | 1994 |
|---|---|---|---|---|---|
| | | | (in thousands of dollars except per share amounts) | | |
| **Consolidated Operations** | | | | | |
| Revenue | | | | | |
| Ski and resort operations | $ 367,395 | $ 263,239 | $165,282 | $102,539 | $ 75,562 |
| Real estate (sales and rental) | 230,734 | 121,333 | 112,253 | 46,719 | 33,680 |
| Other | 3,612 | 4,403 | 5,802 | 3,671 | 1,372 |
| Total revenue | 601,741 | 388,975 | 283,337 | 152,929 | 110,614 |
| Expenses | | | | | |
| Ski and resort operations | 284,231 | 195,851 | 123,910 | 78,591 | 59,345 |
| Real estate (sales and rental) | 185,571 | 98,039 | 96,258 | 38,791 | 26,518 |
| Interest | 22,881 | 20,914 | 14,017 | 6,951 | 6,699 |
| Depreciation and amortization | 38,043 | 25,966 | 17,166 | 10,027 | 9,299 |
| General and administrative | 10,360 | 8,916 | 7,567 | 4,597 | 2,450 |
| Other | 17,667 | 10,994 | 4,762 | 4,145 | 1,708 |
| Total expenses | 558,753 | 360,680 | 263,680 | 143,102 | 106,019 |
| Income from continuing operations | 42,988 | 28,295 | 19,657 | 9,827 | 4,595 |
| Results of discontinued operations | (1,958) | (1,202) | (2,056) | 1,913 | 10,460 |
| Net income | $ 41,030 | $ 27,093 | $ 17,601 | $ 11,740 | $ 15,055 |
| Income per share | | | | | |
| Income from continuing operations | $ 1.25 | $ 1.02 | $ 0.85 | $ 0.43 | $ 0.21 |
| Net income | $ 1.25 | $ 1.05 | $ 0.76 | $ 0.51 | $ 0.70 |
| Weighted average number of shares (in thousands) | 34,486 | 27,809 | 23,048 | 22,983 | 21,405 |
| **Consolidated Cash Flows** | | | | | |
| Ski and resort operations | $ 83,164 | $ 67,388 | $ 41,372 | $ 23,948 | $ 16,217 |
| Real estate - resort | 45,163 | 23,294 | 15,995 | 7,928 | 7,162 |
| Net interest expense | (19,315) | (18,892) | (12,580) | (5,635) | (4,328) |
| General and administrative | (10,360) | (8,916) | (7,567) | (4,597) | (2,450) |
| Other | (2,367) | (5,389) | (1,428) | 1,243 | (882) |
| Total cash flows | $ 96,285 | $ 57,485 | $ 35,792 | $ 22,887 | $ 15,719 |
| Cash flow per share (after providing for non-controlling interest) | $ 2.60 | $ 1.87 | $ 1.34 | $ 0.80 | $ 0.62 |
| **Consolidated Balance Sheets** | | | | | |
| Assets | | | | | |
| Ski and resort operations | $ 692,509 | $ 485,918 | $278,031 | $216,012 | $168,212 |
| Properties - resort | 435,839 | 322,540 | 207,083 | 152,908 | 120,392 |
| - discontinued operations | 39,989 | 76,162 | 102,367 | 178,750 | 205,115 |
| Other | 298,236 | 213,331 | 166,234 | 111,529 | 135,753 |
| Total assets | $1,466,573 | $1,097,951 | $753,715 | $659,199 | $629,472 |
| Liabilities and shareholders' equity | | | | | |
| Bank and other indebtedness | $ 612,823 | $ 489,756 | $379,838 | $314,641 | $299,472 |
| Other liabilities | 200,216 | 110,127 | 83,554 | 66,510 | 62,834 |
| Shareholders' equity | 653,534 | 498,068 | 290,323 | 278,048 | 267,166 |
| Total liabilities and shareholders' equity | $1,466,573 | $1,097,951 | $753,715 | $659,199 | $629,472 |
| Debt to equity ratio | 0.94 | 0.98 | 1.31 | 1.13 | 1.12 |
| Cash flow return on equity | 19.23% | 15.22% | 10.91% | 6.77% | 5.56% |
| Capital expenditures - ski and resort operations | $ 127,487 | $ 51,693 | $ 28,098 | $ 28,990 | $ 40,467 |

*The company changed its year end to June 30, effective in 1995. The 1995 figures reflect a nine-month operating period to June 30, 1995.

## RESORT PROPERTIES

| Resort | Skiable terrain (acres) | Vertical drop (feet) | Trails | Lifts (high-speed) | Average annual snowfall (inches) | Snowmaking coverage (%) | 1998 skier visits (000's) |
|---|---|---|---|---|---|---|---|
| Whistler | 3,657 | 5,020 | 104 | 15 (6) | 360 | 4 | 814 |
| Blackcomb | 3,414 | 5,280 | 119 | 17 (7) | 360 | 10 | 1,040 |
| Copper | 2,433 | 2,699 | 118 | 20 (5) | 255 | 11 | 906 |
| Mammoth | 4,000 | 3,100 | 185 | 38 (7) | 350 | 20 | 979 |
| Tremblant | 502 | 2,131 | 77 | 11 (6) | 140 | 75 | 615 |
| Stratton | 563 | 2,003 | 90 | 12 (2) | 180 | 75 | 427 |
| Snowshoe | 200 | 1,598 | 56 | 11 (2) | 185 | 99 | 444 |
| Panorama | 2,000 | 4,047 | 80 | 8 (1) | 110 | 50 | 148 |
| Mont Ste. Marie | 108 | 1,250 | 24 | 3 (2) | 120 | 80 | 64 |
| Mountain Creek | 168 | 1,040 | 47 | 8 (3) | 90 | 100 | 82 |

## REAL ESTATE

As at June 30, 1998

| Resort | Date construction commenced/is expected to commence | Residential units sold | Residential units under development | Residential units held for future development | Commercial space completed (sq ft) | Commercial space under development (sq ft) | Commercial space held for future development (sq ft) |
|---|---|---|---|---|---|---|---|
| Blackcomb | 1987 | 2,599 | 36 | 142 | 60,000 | – | – |
| Tremblant | 1992 | 1,019 | 464 | 1,790 | 109,000 | 14,000 | 47,000 |
| Keystone | 1995 | 307 | 597 | 2,164 | 65,000 | 62,000 | 191,000 |
| Sun Peaks | 1995 | 57 | 77 | 142 | 6,000 | – | – |
| Panorama | 1995 | 57 | 98 | 1,259 | 5,000 | – | 10,000 |
| Stratton | 1997 | 33 | 177 | 1,088 | – | – | 30,000 |
| Snowshoe | 1997 | 8 | 151 | 691 | – | 9,000 | 23,000 |
| Mammoth | 1998 | – | 206 | 2,017 | – | – | 131,000 |
| Copper | 1998 | – | 234 | 860 | – | 8,000 | 102,000 |
| Squaw Valley | 1998 | – | – | 640 | – | – | 120,000 |
| Whistler | 1998 | 37 | 11 | 963 | – | – | 72,000 |
| Eagles Nest | 1999 | – | – | 462 | – | – | – |
| Sandestin* | 1999 | – | 256 | 2,202 | – | – | 200,000 |
| Mountain Creek | 2001 | – | – | 921 | – | – | 50,000 |
| | | 4,117 | 2,307 | 15,341 | 245,000 | 93,000 | 976,000 |

*acquired July 1998

# & RECREATION REVENUE

**KEY MESSAGE:** Intrawest has developed a unique methodology to develop revenue from recreation. R&R. The key is transforming resorts to dramatically enhance the range and variety of guest experiences so that the resorts come alive, 24 hours a day, 7 days a week, 365 days a year.

Resorts acquired by Intrawest typically have quiet times such as mid-week and off-peak seasons. Intrawest extends the active time at these resorts by adding facilities, lodging, retail and attractions – creating a more attractive experience. This generates more visits and heightened activity. People return again and again, eliminating downtime for the resort and generating increasingly active revenue streams.

The longer Intrawest owns a resort, the larger the amount of year-round revenue the asset yields. Guests come away with a wealth of experiences and memories. The company nets consistent, and accelerating, growth.

INTRAWEST. FOR THE TIMES OF YOUR LIFE.

## CONTENTS



## CORPORATE PROFILE

Intrawest Corporation is the leading developer and operator of mountain resorts across North America. The company's unique resort formula integrates resort operations, real estate development, themed retail, rental accommodation, food and beverage, and resort club ownership, making Intrawest one of the fastest growing leisure/recreation companies in North America. Over the past year, Intrawest accommodated 5.5 million skier and snowboarder visits at its network of resorts and built 740 new lodging units.

Intrawest's geographically diverse resort network includes Whistler/ Blackcomb and Panorama in British Columbia; Tremblant and Mont Ste. Marie in Quebec; Copper, Colorado; Stratton, Vermont; Snowshoe, West Virginia; Mountain Creek, New Jersey; and Mammoth, California. The company is creating world-class, four-season resort villages at Keystone, Colorado and Squaw Valley, California, in addition to its own resorts.

Intrawest has recently acquired Sandestin Golf and Beach Resort in Florida, its first warm-weather resort, offering another opportunity to apply its successful resort formula and increasing its established network of golf courses to 14. The company has also purchased a 16% interest in Compagnie des Alpes, the world's largest ski operator with over 10 million skier visits and ownership interests in 11 resorts in France and one in Italy. This creates a partnership which extends the reach of Intrawest and begins to exploit the potential of a global resort network. Building upon its accumulated rental and retail expertise, Intrawest recently purchased Breeze, Inc. and Max Snowboards, Inc. creating further growth in the high-margin rental and accessories business.

Intrawest's shares are listed on the New York Stock Exchange (IDR) and the Toronto and Montreal exchanges (ITW). The company is headquartered in Vancouver, British Columbia.

## TIME TO TAKE STOCK

For our guests, Intrawest's geographic diversification provides a variety of mountain experiences across North America, each uniquely different, yet all memorable. For Intrawest, it provides both predictability of results and extensive cross-resort advantages.

We now have the critical mass to capitalize on an extensive network that, with our recent acquisitions, can provide both warm-weather and European alternatives to our guests. As the network grows, the synergies in cross-resort marketing, the extensive variety we offer to the tourism and convention industry, and the sponsorship arrangements and bulk purchasing transactions that we are able to negotiate, all accelerate the company's success.

**143 lifts (41 high-speed)**

**17,045 acres of terrain**

**24,083 restaurant seats**

**165 retail and rental shops**

**63 tennis courts**

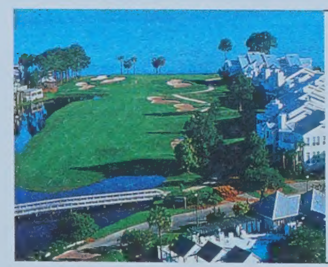
**5,200 lodging units**

**14 championship golf courses**

**18,700 units of potential long-term development**

**16% equity, Compagnie des Alpes, Europe**

### EXPANSION OF THE RESORT NETWORK



**Sandestin, Florida**

3 golf courses (63 holes)
400 restaurant seats
31 shops (29 leased to third parties)
32,000 sq ft of conference facilities
13 tennis courts
98-slip marina
2,700 units of potential long-term development

**Compagnie des Alpes, Europe**

Intrawest owns 16% of Compagnie des Alpes, the largest ski company in the world in terms of skier visits.

10 million skier visits in 1998
393 lifts (26 high-speed)
15,169 acres of terrain

### REAL ESTATE ONLY

**Squaw Valley, California**

Intrawest is creating a world-class, four-season resort village at Squaw Valley, near Lake Tahoe, California.

800 units of potential long-term development

**Keystone, Colorado**

Intrawest is creating resort accommodation and a new village called River Run at Keystone Resort, Colorado.

3,000 units of potential long-term development

## MOUNTAIN RESORTS

### Mammoth, California
979,000 skier visits in 1998
38 lifts (7 high-speed)
185 trails
4,000 acres of terrain
3,100 vertical drop (feet)
4,620 restaurant seats
6 sport shops
18-hole championship golf course (under construction)
2,400 units of potential long-term development

### Whistler/Blackcomb, B.C.
1,854,000 skier visits in 1998
32 lifts (13 high-speed)
223 trails
7,071 acres of terrain
5,280 vertical drop (feet)
6,240 restaurant seats
28 sport shops
1,200 units of potential long-term development

### Snowshoe, West Virginia
444,000 skier visits in 1998
11 lifts (2 high-speed)
56 trails
200 acres of terrain
1,598 vertical drop (feet)
2,080 restaurant seats
10 sport shops
6 tennis courts
18-hole championship golf course
snow-tubing hill with lift
900 units of potential long-term development

### Panorama, B.C.
148,000 skier visits in 1998
8 lifts (1 high-speed)
80 trails
2,000 acres of terrain
4,047 vertical drop (feet)
800 restaurant seats
4 sport shops
8 tennis courts
18-hole championship golf course (under construction)
1,400 units of potential long-term development

### Mountain Creek, New Jersey
82,000 skier visits in 1998 (operated on a limited basis)
8 lifts (3 high-speed)
47 trails
168 acres of terrain
1,040 vertical drop (feet)
1,379 restaurant seats
6 sport shops
168-acre summer theme park
5 man-made mountain-top lakes
1,000 units of potential long-term development

### Tremblant, Quebec
615,000 skier visits in 1998
11 lifts (6 high-speed)
77 trails
502 acres of terrain
2,131 vertical drop (feet)
2,668 restaurant seats
17 sport shops
11 tennis courts
2 18-hole championship golf courses
2,300 units of potential long-term development

### Copper, Colorado
906,000 skier visits in 1998
20 lifts (5 high-speed)
118 trails
2,433 acres of terrain
2,699 vertical drop (feet)
2,866 restaurant seats
12 sport shops
8 tennis courts
18-hole championship golf course
1,200 units of potential long-term development

### Mont Ste. Marie, Quebec
64,000 skier visits in 1998
3 lifts (2 high-speed)
24 trails
108 acres of terrain
1,250 vertical drop (feet)
700 restaurant seats
3 sport shops
18-hole championship golf course
total potential development under review

### Stratton, Vermont
427,000 skier visits in 1998
12 lifts (2 high-speed)
90 trails
563 acres of terrain
2,003 vertical drop (feet)
2,330 restaurant seats
20 sport shops
17 tennis courts
27-hole championship golf course
1,300 units of potential long-term development


LISA

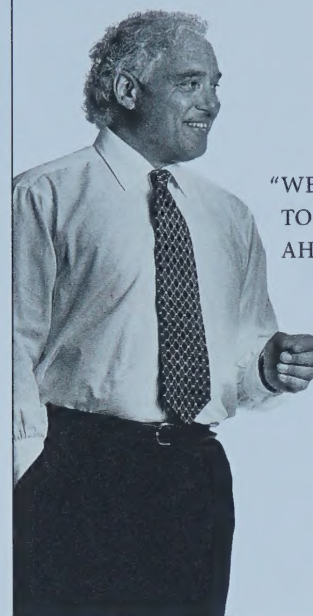
# R&R A TIME OF ACHIEVEMENT

## AWARDS

- Whistler/Blackcomb was rated the #1 resort in North America by *Mountain Sports & Living* magazine (previously *Snow Country*) for the seventh consecutive year.
- Tremblant was rated #1 overall in the east for the second consecutive year by *SKI* magazine. Tremblant was also rated #1 in North America for lodging.
- For the second year in a row, a Whistler retail location was named Canada's Innovative Retailer of the Year by the Retail Council of Canada. The 1998 honour was awarded to Whistler/Blackcomb's Mountain Adventure Centres, four rental shops where guests can test drive the latest winter sports equipment and trade in gear to try something else at any centre, any time of the day.
- The Raven at Sabino Springs, Tucson and The Raven at South Mountain, Phoenix were rated #5 and #7 out of 5,300 golf courses in North America for service by *Golf Digest.*
- Stratton and Whistler/Blackcomb received two of Times Mirror's five 1998 Silver Eagle Awards – Stratton for "Environmental Excellence in Water Conservation and Wastewater Management" and Whistler/Blackcomb for "Excellence in Environmental Education."
- For resort development, Silver Mill at Keystone won The Honor Award, the highest award given at the AIA Colorado West design awards.
- Peter Hardy of *The Evening Standard* (London) rated Whistler/Blackcomb "among the top five resorts in the world, a purpose-built ski town with considerable charm and an amazing choice of restaurants."
- *The Daily Telegraph* (London) named Tremblant "Resort of the Year," saying Intrawest had transformed the resort "from sleepy backwater to international showpiece."

## ACHIEVEMENTS

- Posted record results at Whistler/Blackcomb, Snowshoe and Mammoth, grew total network-wide visits by 5% and came within 1% of budget, reflecting the predictability which comes from geographically diverse resorts with a high proportion of destination skiers. Doubled real estate revenue from last year, recording $226.4 million.
- Sold 376 mountain homes for a total of approximately $140 million at real estate launches at Stratton, Vermont; Snowshoe, West Virginia; Copper, Colorado; and Mammoth, California during a four-week period in the spring.
- Acquired Mountain Creek in New Jersey, a resort within 90 minutes of 22 million people and an estimated 1.3 million skiers and snowboarders.
- Acquired Raven Golf Group which has received numerous accolades and awards in the past two years and is now recognized as one of the premier owners and operators in the southwestern US.
- Acquired 16% of Compagnie des Alpes, creating a global alliance with the world's largest ski operator in terms of skier visits.
- Acquired Sandestin Resorts, Inc., owner and operator of the largest resort and residential community in northwestern Florida.
- Successfully completed two public offerings of unsecured debentures of $125 million in Canada and US$125 million; raised $110 million in an equity issue of 3,850,000 common shares in the US and Canada.



"WE HAVE ACCOMPLISHED WHAT WE SET OU
TO DO – AND WE HAVE DONE IT SUBSTANTIALL
AHEAD OF SCHEDULE."

Joe S. Houssian
Chairman, President and
Chief Executive Officer

RECREATION & REVENUE

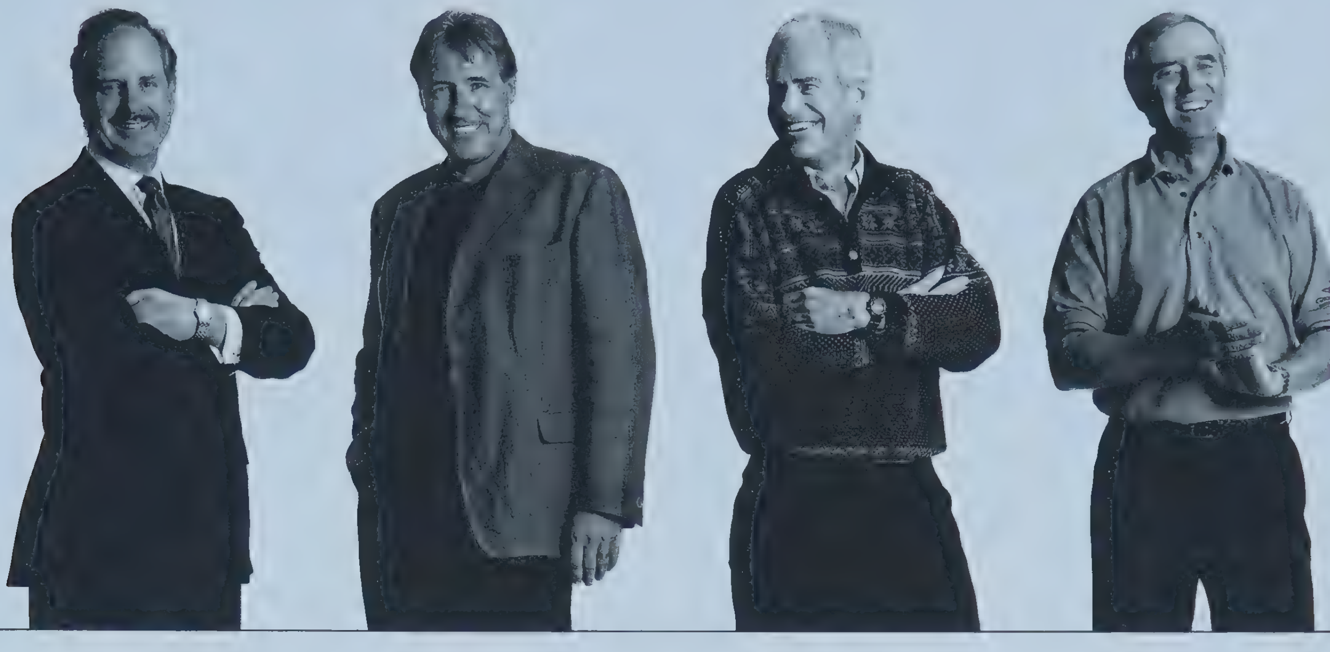
## CHAIRMAN'S MESSAGE

The momentum at Intrawest simply keeps building. In 1994 we articulated a bold strategy of becoming a major high-growth North American leisure organization. And the last four years have been incredibly rewarding as the people of Intrawest worked together to put in place the infrastructure to make that happen. The building blocks are now in place and in the process we have emerged as the largest company in the Western Hemisphere in our business. We have established a growing network of irreplaceable four-season destination resorts across the continent. We have built – or are in the process of building – vibrant villages at our resorts that encourage people to return, again and again. We have developed the systems and fostered the synergies that have made our operations more efficient and more profitable. In short, we have accomplished what we set out to do – and we have done it substantially ahead of schedule.

The past year has gone quickly. Last year I commented in our annual report that 1997 had been a "defining" year for Intrawest - a year of acquisitions and internal expansion that would literally define our future growth. As I reflect on the many events of 1998, it is clear that the momentum and successes of that very significant year have continued and even accelerated.

Let me first address our most recent acquisitions that have taken us across oceans and across climates. We saw enormous opportunity to apply our knowledge to the European ski resort market. But we wanted a partner, someone with the skills and local knowledge to complement our own. On July 16, 1998, we acquired a 16% interest in Compagnie des Alpes ("CDA"), a public company listed on the Paris Exchange and the largest ski operator in the world. CDA is the premier player in Europe, and together we will expand CDA's European base of eleven ski resorts in France and one in Italy to other locations as opportunities arise. This investment now gives us a window on the largest ski market in the world. Building on the benefits that accrue to a world-scale organization, we have already begun pursuing the cross-marketing opportunities of this relationship which will enable us to link many of Europe's and North America's best-known mountain resorts.

With the importance of cross-marketing and four-season activity to our business model, the ability to grow our golf business adds yet another dimension. As a way of strengthening our golf expertise, on July 23, 1998, we purchased Raven Golf of Phoenix, Arizona. Our acquisition of Raven was more than just buying golf courses. It was about bringing a team of individuals who are at the top of their game into the Intrawest group. Amongst numerous other awards, the first two courses built by Raven ranked in North America's top 10 for service. When we entered the ski industry in 1986, we successfully married Blackcomb's service



Daniel O. Jarvis
Executive Vice President and Chief Financial Officer

James J. Gibbons
President, Resort Club Group

Hugh R. Smythe
President, Resort Operations Group

Gary L. Raymond
President, Resort Development Group

culture with Intrawest's real estate expertise. Now in 1998 we are doing the same thing in a complementary business. We will proceed cautiously in our expansion into the golf industry, but I have a hunch we will see the same positive results we saw when we entered the ski business.

We are known for building mountain villages that people want to visit year-round, regardless of whether they come to ski, golf, bike or hike. In fact, many of our visitors are drawn solely by the vibrant atmosphere of our resorts. Tremblant had 30,000 people in the village one day this summer, and a third of the visitors at Whistler/Blackcomb are there just to experience the village. So we asked ourselves a simple question. Can we take our village concept and apply it to a warm-weather resort? We believe we can. So, on July 13, 1998, we acquired Sandestin, a stunning resort on seven miles of bayfront on the Gulf Coast of Florida. Sandestin is a perfect opportunity for Intrawest because its characteristics align precisely with each of our core competencies – leisure activities, real estate development, retail, lodging and now golf.

We own three golf courses at Sandestin with a spectacular contiguous piece of waterfront real estate right beside each of them. It is on this land where we will envision and build a seaside pedestrian village that will rival the best of our mountain resort communities. With Raven's expertise in delivering great golf and our leisure and real estate competencies, I am looking forward to watching Sandestin rise into the ranks of one of the world's great year-round, beachfront resorts. And the development of this great opportunity is going to happen faster than most people think. We have been successful in making Whistler/Blackcomb an internationally acclaimed beacon for mountain destinations – a prototype for other developments. Our goal at Sandestin is to create a similarly successful resort with warm-weather amenities surrounding a village that is unique on the continent. It too will become a model for the future.

As pleased as we are with our recent acquisitions, it is the growth and potential of our existing asset base that is the foundation of our optimism. In our Resort Operations Group (which consists of ski operations and complementary businesses), we grew earnings from operations 19% last year by applying the Intrawest formula to a multi-resort network. In our Resort Real Estate Development Group we saw an increase in units sold of 64% over the prior year. We have come to expect impressive real estate sales at Whistler/Blackcomb and Tremblant – we've been at it for a few years. But what is tremendously satisfying is that in just eight days this past spring we sold 376 homes as we pushed the launch button on new villages at Stratton, Vermont; Snowshoe, West Virginia; Copper Mountain, Colorado; and Mammoth

Mountain in California. In each case, these sales marked the birth of new year-round destination resorts at these locations.

Our multi-resort network has also created other lines of business across our resorts that are significant in themselves and growing. An example of these is our rental and retail business. Intrawest has developed a reputation for innovation in rental and retail at mountain resorts which was recognized in two consecutive years with all-Canada awards for 'Retailer of the Year'. Our recent acquisition of Breeze Rentals and Max Snowboards, announced September 8, 1998, adds 43 strategically located stores to our already established network of 122 storefronts. Breeze also has extensive relationships with tour operators, travel agents, and airlines, providing Intrawest with a strong position in the independent and tour-based destination business.

As I write this, the world is going through economic uncertainty. This leads us to continue exercising extreme caution in the management of growth. In this regard, what is particularly encouraging to us is that we do not have to acquire more resorts to maintain our growth targets of 20% plus per year. Instead, room for growth is built into our existing portfolio. I'm often asked, "where are you in your growth evolution at your various resorts?" Many of our resorts are just at square one in attaining the destination resort status of Whistler/ Blackcomb and Tremblant. We know that the growth we have attained at these two resorts is also achievable at the resorts we have more recently purchased. For example, real estate production at Intrawest will double in the next two years as we bring on product at five more of our new resorts. And Club Intrawest – our high-end member-based lodging concept – is now expanding across the continent. We believe we're only beginning to see the strategic advantages of owning a multi-resort network both in terms of synergistic growth as well as economies of scale.

We are creating resorts which provide revenue to Intrawest literally every hour of the day, every season of the year. Throughout this report you will find a comprehensive discussion about what we have labeled R&R – Recreation and Revenue. As we build our network of resorts – and as we expand our expertise in retail, lodging, food, attractions and more – we create more revenue opportunities for Intrawest from the same customer base. People come and stay at our destination resorts for several days, a week, or longer. One of the keys to our explosive financial growth is the development of amenities and services that we can provide to our guests hour in and hour out.

Someone asked me the other day how we measure our success. Is it our financial performance? Or perhaps the consolidation of our unique and irreplaceable portfolio of assets? Is it the human resources that have come together to create such a dynamic environment? Yes, it is all of these, in which we take great pride. But beyond them is an ability that makes us unique in the world – and that is the power and reach we have achieved by combining in one organization real estate development expertise (the design and construction of pedestrian villages) with the delivery of a strong service culture. Evidence Whistler/Blackcomb in the west and Tremblant in the east, our two most mature assets, each now ranked #1 in their half of the continent. The key to our success comes from the power of this symbiotic relationship between these two parts of our business – real estate development and operations.

None of our accomplishments of the past year would have been possible without the exceptional skills and dedication of our employees. Ours is a complex business and our people deliver with pride and passion. To my great satisfaction, I have watched this company double in size in the last two years. And even more gratifying is that this growth has been accomplished in a controlled environment. We have the leadership in place, up, down and throughout the organization, and one thing is certain to me – our strongly felt philosophy of empowering people and giving them the resources to get the job done is clearly working.

As I came to this point in my message, I asked one of our senior executives to review it and he commented, "Joe, don't you think we should say something about the 'Intrawest Way'"? I asked Michael what he meant because, although I had a sense of what he was saying, the expression " Intrawest Way" has not been one we use every day. He defined the "Intrawest Way" as our intellectual capital – the ongoing development of various processes and initiatives that we consider to be an integral part of the Intrawest brand. It's not only WHAT we do


*INTRAWEST'S UNIQUE SPECIALTY RETAIL OUTLET, CAN-SKI, AT WHISTLER/BLACKCOMB.*

but also HOW we do it that truly differentiates the company. Our envisioning process, our real estate launch process and the "Revenue Clock" described on page 14 of this report are a few shining examples of the "Intrawest Way". At our Mountain Institute seasoned veterans, like Michael Coyle, who created these concepts, share them with new recruits – the leaders and managers of the future who join the company as we bring new resorts and new infrastructure on line. The Mountain Institute, through its Leadership School, Sales School and Development School, provides us with a valuable forum to communicate the company's best practices, core values and essential skills while, at the same time, stimulating the innovative, breakthrough thinking that has become one of Intrawest's hallmarks. The "Intrawest Way" is a culture of delivering excellence in all we do, everywhere we do it, all of the time.

In closing, two years ago while writing the final draft of my annual report message, I questioned whether my words were perhaps too optimistic. But after consulting with other members of our senior management team, I let the words stand because they were an honest expression of how we felt as a group. Today, two years later, I am very pleased to say that our excitement and optimism remain intact. Company wide. Across continents.

Joe S. Houssian
Chairman, President and Chief Executive Officer
September 14, 1998

"THE PAST OPERATING SEASON PROVIDED CONVINCING EVIDENCE THAT INTRAWEST'S APPROACH TO THE BUSINESS DELIVERS HIGHLY PREDICTABLE RESULTS."

Daniel O. Jarvis
Executive Vice President and
Chief Financial Officer

# REPORT ON FINANCIAL STRATEGY

As I look back at our annual reports over the past five years there are three recurring themes in our financial messages: predictability, risk mitigation and a commitment to a 20%+ growth in earnings. I am pleased to report that we remain firmly on track in each of these areas. A snapshot of our growth over the past three years is evidence of the Intrawest plan in action.

| | 1996 | 1997 | 1998 | % Change 1996-1998 |
|---|---|---|---|---|
| Market capitalization (millions) | $333.3 | $898.0 | $1,186.4 | 256% |
| Total company EBITDA* (millions) | $ 58.4 | $ 88.6 | $ 129.6 | 122% |
| Earnings per share | $ 0.85 | $ 1.02 | $ 1.25 | 47% |

*EBITDA is earnings before interest, taxes, depreciation and amortization.

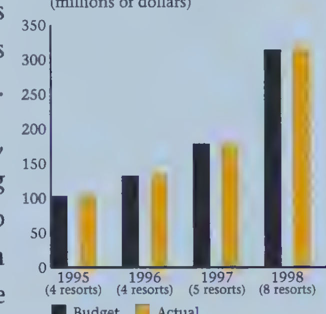
This performance has built confidence among the company's lenders and investors and their continuing support has given us excellent access to capital. In the past 12 months we have raised $141.3 million in new equity and $312.5 million in long-term debentures. By replacing short-term, floating-rate debt with a significant layer of long-term, fixed-rate debt, we have strengthened our balance sheet and lowered our overall financial risk.

## Predictability and Risk Mitigation

The past operating season provided convincing evidence that Intrawest's approach to the business delivers highly predictable results. For the fourth year in a row, resort operations revenue was within 1% of budget. This predictability results from our geographical diversification, high proportion of destination guests and extensive investment in snowmaking.

We are confident in our ability to maintain strong earnings even in adverse economic conditions. We increased cash flow at Blackcomb every year since 1986 when we acquired it, despite a recession in the early 1990s. Our affluent customers are very committed to their mountain sports and lifestyle. Furthermore, our exposure to Asia is very low, with less than 3% of revenues derived from visitors from Asian countries.

**Resort Operations Revenue**
(millions of dollars)




On the real estate side of our business, we buy land at a low cost or with rolling options that take place as we build, so there is very limited financial risk with our land holdings. In addition, we continue to have great success with our pre-sale launches and have built a backlog of contracted sales amounting to $282 million by the end of August 1998. These sales will close in 1999 and 2000. Not only does this pre-sale strategy mitigate risk in real estate, but it increases the predictability of both real estate and operations. Each of the units sold provides more "pillows" for the resort, which creates a predictable number of new skier visits.

## Capital Investment and the Growth of Intrawest's Resort Villages

By the commencement of this winter season the company will have spent approximately $230 million in capital expenditures at its resorts over the past 18 months. These expenditures include high-speed lifts, restaurants, snowmaking equipment, golf courses, retail stores and many other facilities. It is a capital program without precedent in the mountain resort industry and it was undertaken with the following principal objectives:

- To attract more visits to each resort by creating a more powerful draw.
- To enhance the competitiveness of our resorts.
- To build new revenue opportunities, thereby increasing revenue per visit.
- To respond to capacity constraints resulting from growth.
- To create broader, more varied resort attractions to increase the average length of stay.

The largest expenditures have been at some of our most recent acquisitions – Copper, Whistler, Mammoth, Mountain Creek and Snowshoe – where the opportunities to achieve a major impact from our investment were the greatest. The focus of the organization has now turned to maximizing the revenue growth from these much-enhanced capital facilities. Having made these investments, our capital plans for the coming year will be quite modest, with priority being given to those with high revenue impact.

The capital investment we have made at our resorts is closely integrated with the expansion of our resort villages. Over the five-year period from 1996 to 2000, we estimate that we will have added 4,400 units of accommodation at our resort villages. The bulk of these are "warm" (i.e. rentable) beds. At normal levels of occupancy this will support growth of approximately a million winter visits. It will also drive revenue per visit growth as these new beds are geared towards higher-spending destination clientele.

In summary, capital investment in all of our resort businesses, together with accommodation growth, is expected to generate same-resort visit growth of approximately 5% per annum and revenue per visit growth of 8-10% per annum, which together will create double-digit revenue growth.

## Profitability

Profit margins in our resort operations have been increasing and we expect this to continue as we expand the destination business and capture more of the economies of scale from our multi-resort network. Furthermore, as we apply the relevant Intrawest benchmarks to our most recently acquired resorts, there are significant opportunities to increase operating profit per visit.

On the resort real estate side, we continued our track record of consistent growth and high profitability. We delivered 763 units of real estate, an increase of 64% from the previous year and achieved margins for the real estate division of 18.9% in 1998. The margins achieved reflect tight cost control as well as an upward movement in prices. We expect to double the annual number of units we deliver by fiscal 2000. This will be achieved as we begin the renaissance of villages at our new resorts, an initiative that began this spring with successful pre-sale launches at Mammoth, Copper, Stratton and Snowshoe.

## Future

Last year, our goal was to double total company EBITDA from 1997 to 2000 – a compound growth rate of 26% per annum. With an increase of 46% already achieved in 1998 we now expect to surpass our ambitious year 2000 target. We are forecasting that this rapid growth in total company EBITDA will exceed the growth in interest expense and depreciation and this will drive even more rapid growth in pre-tax income. Even assuming a gradual increase in our tax rate over the next several years, the net result we expect is earnings per share growth of 20-25% per annum.

As we look ahead, the path is more clearly defined than ever before. While acquisitions will still play a role, their relative importance will likely decline and any acquisitions we consider must continue to meet very stringent criteria. The great opportunity we have ahead of us is to apply the Intrawest formula to our existing resort assets to significantly increase revenue and earnings.

Daniel O. Jarvis
Executive Vice President and
Chief Financial Officer
September 14, 1998

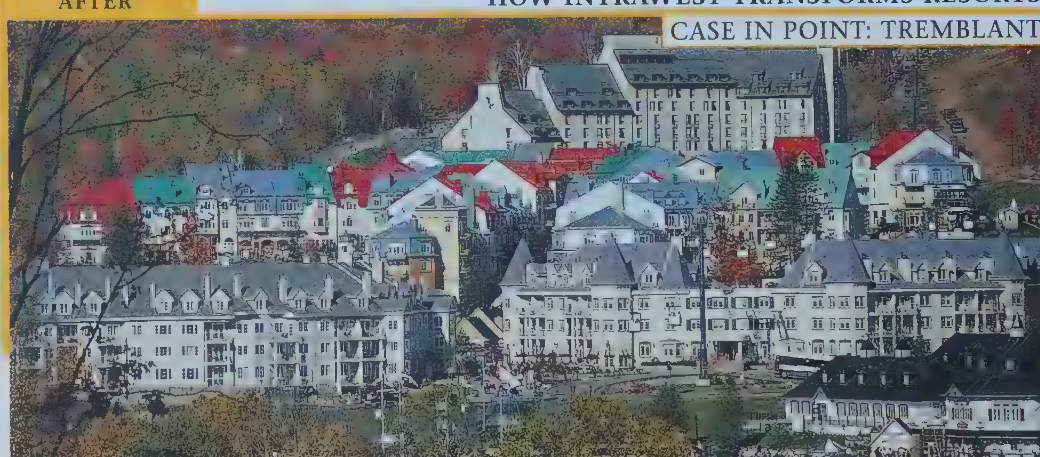
## & RECREATION REVENUE

BEFORE

AFTER

HOW INTRAWEST TRANSFORMS RESORTS

CASE IN POINT: TREMBLANT

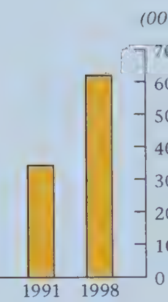


Typical of the resorts Intrawest acquires, Tremblant was an underdeveloped, under-performing asset. The second oldest ski mountain in North America, Tremblant was a place that time had seemingly passed by. Intrawest applied its Recreation & Revenue methodology from day one. The company's unique acumen in both resort operations and real estate linked on-mountain improvements with a new warm-bed village at the base. This attracted skiers in record numbers year after year. An Intrawest Resort Club was built, providing the highest occupancy figures in Tremblant. Two award-winning golf courses were added extending the peak periods of the resort beyond winter. More people buying into and visiting Tremblant fueled new themed retail shops as well as restaurants. The village came alive.

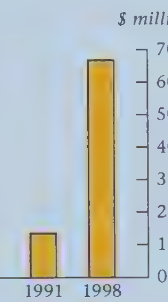
The result is an incredible elimination of what was formerly "downtime". More people spending more time generating revenue 24 hours a day, 7 days a week, 365 days a year. This same Recreation & Revenue methodology is at work throughout the Intrawest network of resorts.

THE INTRAWEST R&R METHODOLOGY GENERATES REVENUE 24 HOURS A DAY, 7 DAYS A WEEK, 365 DAYS A YEAR.

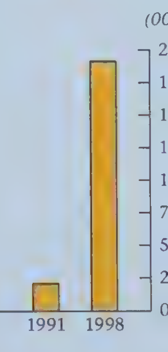
TREMBLANT VISITS




TREMBLANT REVENUE



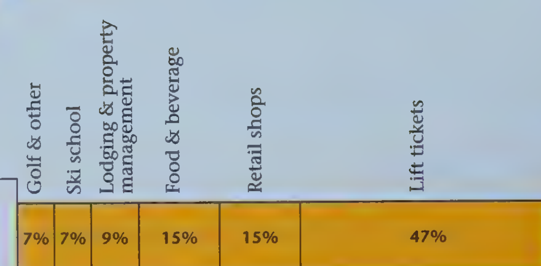

TREMBLANT ROOM NIGHTS



# RECREATION & REVENUE 24 HOURS A DAY

The Intrawest R & R methodology starts from a simple premise. Provide activity opportunities throughout each day. The result – 24 hour-by-hour marketing plans for each guest segment each day at each resort.

THE INTRAWEST REVENUE CLOCK CONTAINS A MARKETING PLAN FOR EACH GUEST SEGMENT FOR EACH HOUR OF THE DAY.

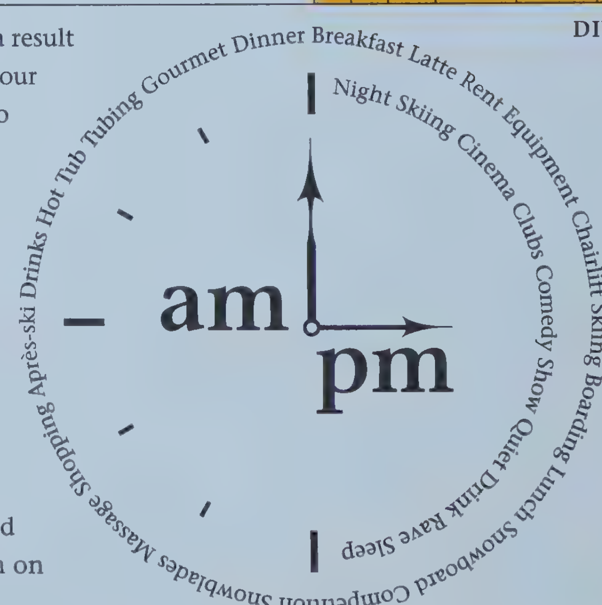



DIVERSIFIED REVENUE SOURCES

A "Revenue Clock" that grows revenue by the hour as a result of each guest segment having a good time every single hour – all ages, both day and destination visitors, those who ski/board and those who don't. This kind of thinking spurs innovation.

One example was a slow period between 7:00 and 10:00pm at Silver Creek at Snowshoe. The Snowshoe team created a Family Adventure Centre in response. "Ruckus Ridge" included a half-pipe for snow-boarding, a terrain park, themed music, on-mountain snacks in a yurt, a food court and the addition of lights for night skiing, boarding and tubing.

The results? Visits at Silver Creek went up 111%, and revenue and EBITDA both increased 22%. The return on investment was 40% in the first year.



A mountain resort is predominantly operated on fixed costs. It costs almost the same to run it whether there are 1,000 people on the hill or 10,000. Yielding superior returns therefore depends on maximizing its use on those historically quiet mid-week days.

Intrawest destination villages accomplish this by attracting destination visitors who stay beyond weekends. A key ingredient is the building of a "warm bed" village. Warm beds are those that are rented out when the owners aren't using them. To generate warm beds Intrawest creates a four-season "total resort." When combined with the staged expansion of the mountain operations this attracts visitors who stay for longer periods to experience the range of activities built into the village and mountain. Intrawest also builds Resort Club locations which are the "warmest" (most used) beds in a resort.

YIELDING SUPERIOR RETURNS THEREFORE DEPENDS ON MAXIMIZING ITS USE ON THOSE HISTORICALLY QUIET MID-WEEK DAYS.

No one else in the industry has this strategy or has accomplished this maximized 24/7 use of a resort. Intrawest has proven its effectiveness at Whistler/Blackcomb and at Tremblant. The process has just begun at Stratton, Snowshoe, Mammoth and Copper.

A QUALITY LODGING EXPERIENCE IS A KEY COMPONENT FOR TODAY'S DESTINATION VISITOR WHO FILLS MID-WEEK.

**THE MULTIPLIER EFFECT**

Every single mountain home comes with a built-in revenue stream. A typical lodging unit at an Intrawest resort generates approximately \$19,000 in winter revenue alone every year. Intrawest sold 763 units last year for a total of \$204 million and is building approximately 19,000 units over the next 12 to 15 years.

| | |
|---|---|
| Lodging | \$ 8,600 |
| Food & Beverage | 1,620 |
| Retail Shops | 2,020 |
| Ski Lift | 5,410 |
| Rental Equipment | 580 |
| Ski School | 770 |
| | \$ 19,000 |

**MOUNTAIN MATH**

Assumes 157 ski-season days, 63% occupancy and an average of 3 people per room-night (based on 1998 results). Each unit represents 300 lodging guests who eat and shop. If 70% of them ski, that's 200 skiers who can rent equipment and attend ski school. Tremblant's revenue-per-visit figures were used to calculate the economic impact of a single mountain home.

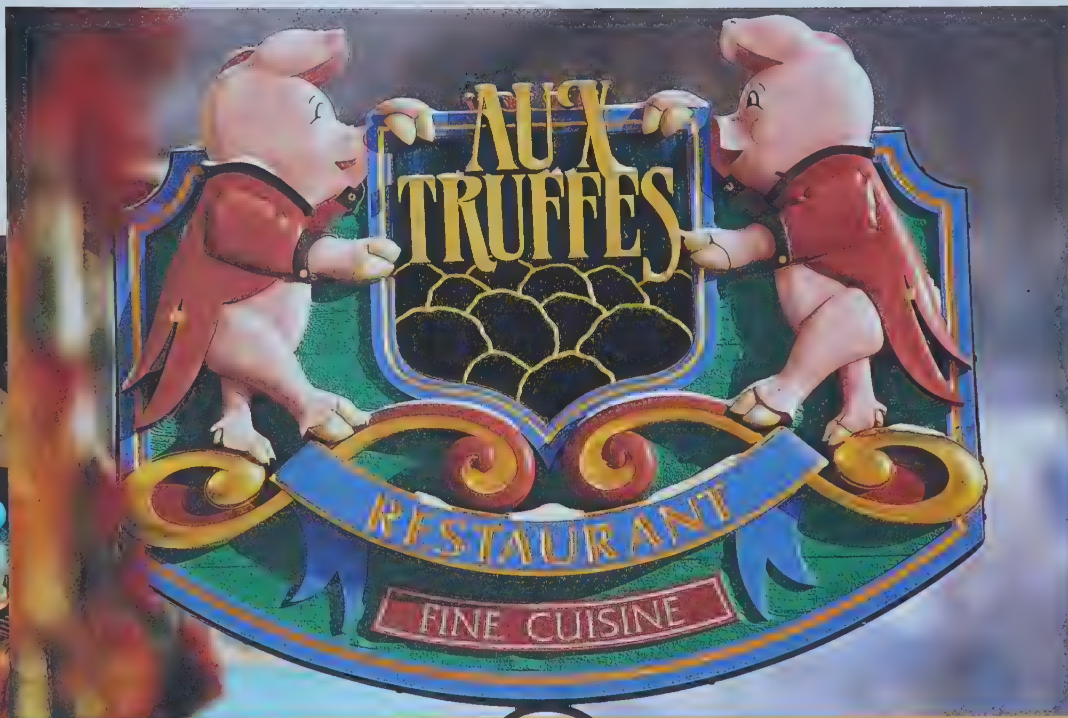
## RECREATION & REVENUE 7 DAYS A WEEK

The Intrawest Destination Village translates into time very well spent. The streets themselves are designed to enhance experiences. Musicians, clowns and other performers complement the sense of discovery around every corner. A latte on the plaza while people-watching is the perfect postscript to a day at the resort.

Within an Intrawest Destination Village the week breaks down into a series of choices for guests and revenue streams for the company. Entertainment retail is a thriving component. This ranges from watching a baker roll fresh bagels by hand to actually climbing a wall in a sports store trying out the latest in boots and mountain gear. Themed restaurants become destinations within the destination resorts.

Intrawest continues to enhance the attractions at its resorts and it is now not uncommon to have a choice of going to a spa, a movie or even taking the kids to a themed mini-golf park. The village becomes part of the natural attraction above and around it.

WITHIN AN INTRAWEST DESTINATION VILLAGE THE WEEK BREAKS DOWN INTO A SERIES OF CHOICES FOR GUESTS AND REVENUE STREAMS FOR THE COMPANY. A VIBRANT VILLAGE IS BECOMING THE TIE BREAKER IN DECIDING WHERE TO GO ON A SKI VACATION.




INTRAWEST DESTINATION VILLAGES. TIME VERY WELL SPENT.

# RECREATION & REVENUE 365 DAYS A YEAR

THE APPROXIMATELY 40 KMS OF BIKE TRAILS AT WHISTLER HAVE BECOME THE RESORT'S SECOND-RANKED ATTRACTION AFTER THE VILLAGE IN THE SUMMER.

SANDESTIN, THE LARGEST RESORT AND RESIDENTIAL COMMUNITY IN NORTHWESTERN FLORIDA, WAS PURCHASED IN JULY 1998. THIS 2,400-ACRE BEACHFRONT PROPERTY INCLUDES A MARINA, 63 HOLES OF GOLF, TENNIS CENTRE, RETAIL MARKETPLACE AND CONFERENCE CENTRE.

LE GÉANT AT TREMBLANT HAS BEEN FULLY BOOKED SINCE OPENING AND A SECOND COURSE, LE DIABLE, IS SHOWING A SIMILAR TREND.

**TO EVERY VISITOR THERE IS A SEASON.**

Different visitors are attracted to resorts at different times of the year. What they wish to do also varies. Each of these groups represents business opportunities to maximize the use of the Intrawest resort network.

To extend the range of activities offered Intrawest now has 14 golf courses, many of which are becoming the primary draw after the winter season ends. Intrawest also programs concerts, festivals and other events, provides cycling and hiking trails, and builds attractions to bring the resort to life four seasons a year.

THE INTRAWEST REVENUE CALENDAR BREAKS THE YEAR DOWN INTO SEGMENTS DEFINED BY WHO CAN VISIT WHEN. EXPERIENCES ARE THEN DESIGNED AND TAILORED FOR EACH OF THESE SEGMENTS.

The convention business is also critical to year-round operations and is traditionally strong in spring and fall, rounding out the resort calendar year. The acquisition of Sandestin, with its extensive conference facilities and its strong relationship with the travel industry, is an important addition to Intrawest's network. With its year-round appeal, Sandestin also helps balance Intrawest's seasonal revenue stream.

Owners of amenities such as great restaurants require revenue 12 months of the year before they will locate in a resort. In order to attract the right hotel, restaurant and retail partnerships Intrawest resorts are designed to hold year-round appeal to residents and guests.

OCCUPANCY AND ROOM RATES IN TREMBLANT AND WHISTLER/BLACKCOMB IN JULY/AUGUST NOW MATCH JANUARY/FEBRUARY. ON AUGUST 4, 1998, 30,000 PEOPLE ATTENDED THE BLUES FESTIVAL AT TREMBLANT – AN ALL-TIME RECORD FOR VISITORS. THIS LEVEL OF ACTIVITY IN THE SUMMER SEASON WAS PREVIOUSLY UNHEARD OF IN SKI RESORTS.

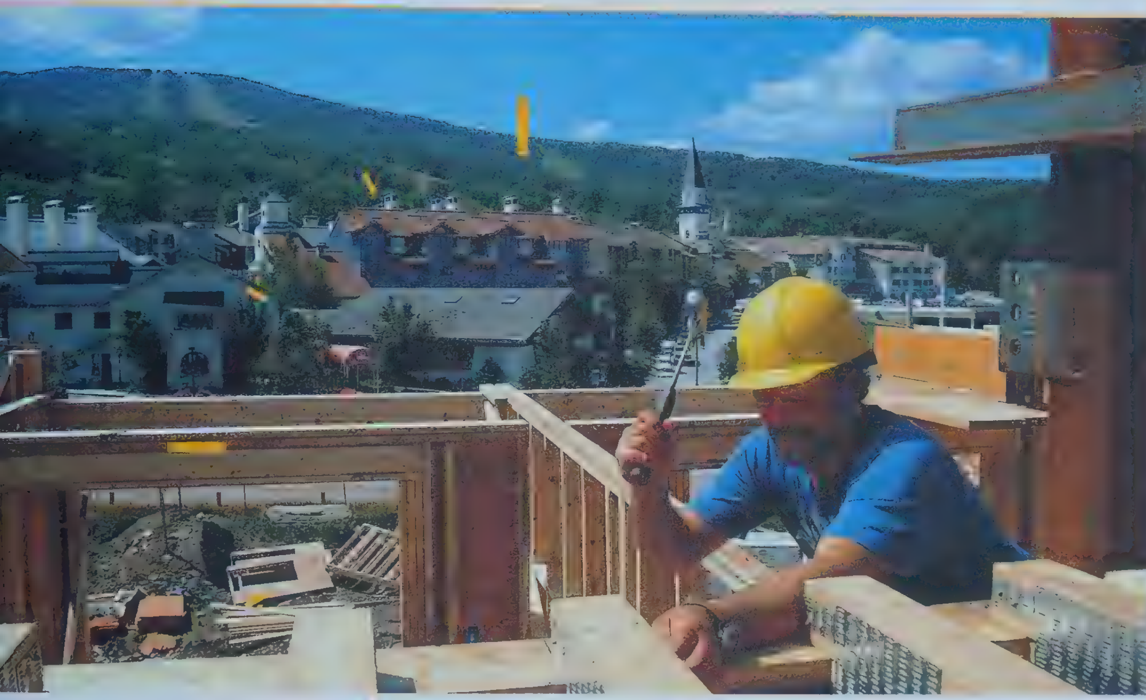

# RECREATION & REVENUE

## GROWTH OVER TIME

Each gear of Intrawest's revenue clock produces increased skier visits, increased revenue per visit and higher real estate values at every turn. The design's elegance is that the gears work in sync, causing a compounding effect. The result: exponential power. The power to move mountains.

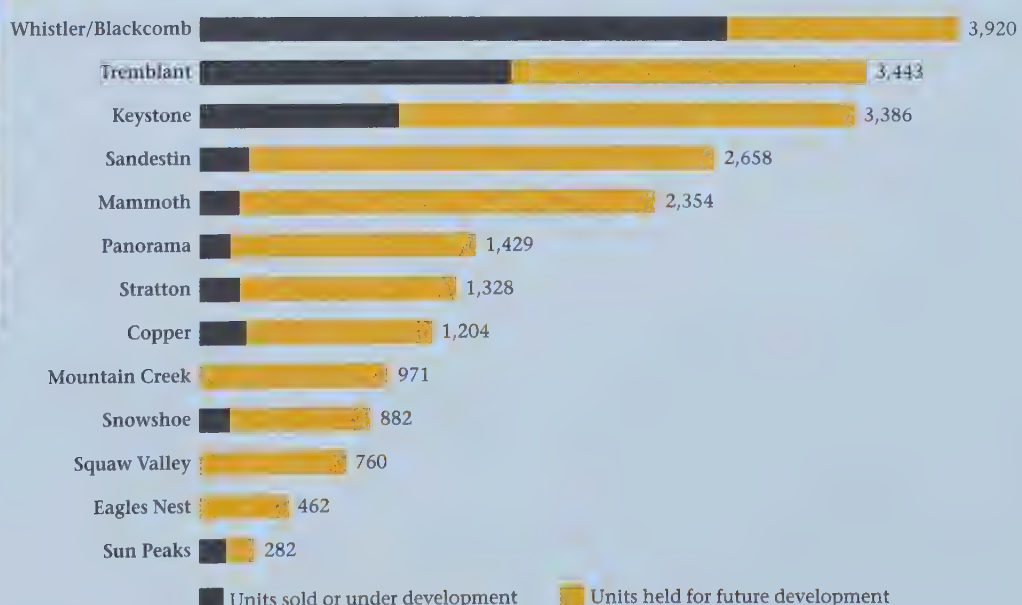
1. We start with a resort and enhance the experience.
2. Then build an animated village so people stay longer.
3. All this attracts more visitors who come more often, spend more money and bring their friends.
4. More real estate is built and attractions are added, drawing yet more people.
5. More people, more often, leads to the expansion of year-round facilities, maximizing use of shops, hotels, convention facilities and restaurants.
6. As occupancy and room rates climb, so does demand for resort real estate, creating a surge in real estate sales.
7. All this results in a total resort experience which brings year-round destination visitors, generating financial critical mass which...
8. Leads to more resorts. Network synergy results in a compounding effect on the company's revenue streams and growth through time.

MOST OF THE RESORTS INTRAWEST OWNS OR ACQUIRES ARE AT THE EARLY STAGES OF THIS TRANSFORMATION, WITH THE THICKEST PART OF THE GROWTH CURVE YET TO COME.



Growth is compounded not only over time as the formula is applied but also across the resort network through cross-marketing, bulk purchasing, sponsorships, convention marketing and the sharing of best practices. The company's investment in Compagnie des Alpes creates a partnership which extends the reach of Intrawest and begins to exploit the potential of a global resort network.

## LONG-TERM GROWTH SECURED BY SUPPLY OF LAND




Only Intrawest has the available land, expertise and track record to transform resorts into fully animated destination resorts. Risk is minimized by pre-selling real estate, obtaining the land at low cost and partnering. Intrawest had $282 million in pre-sales at August 31, 1998 for 1999 and 2000 delivery.

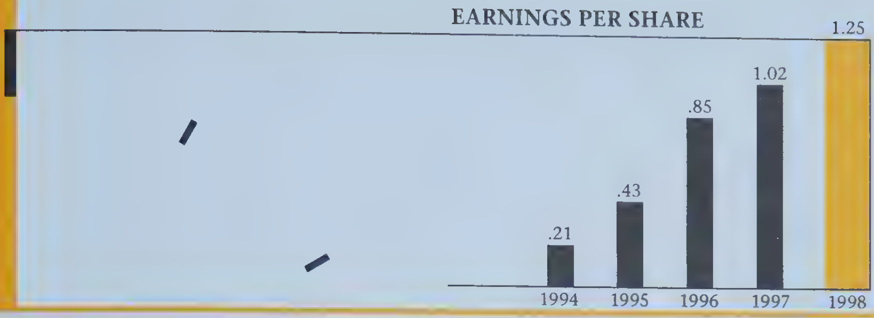
# & RECREATION REVENUE

## AN EXPANDING COMPANY IN AN EXPANDING SECTOR

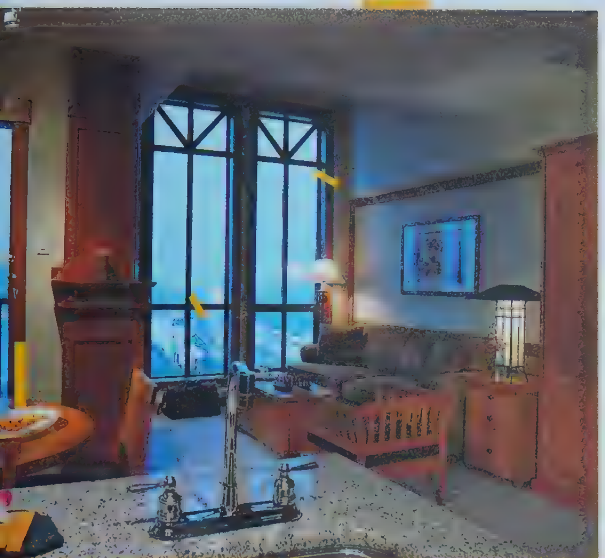
RECREATIONAL SERVICES SPENDING HAS INCREASED MORE THAN 10-FOLD IN THE PAST 30 YEARS AND SPENDING ON SPORTS EQUIPMENT HAS INCREASED MORE THAN 14-FOLD.

THE NUMBER OF SNOWBOARD VISITORS IN THE U.S. INCREASED 21% IN THE PAST YEAR AND IS ESTIMATED TO INCREASE A FURTHER 63% OVER THE NEXT 5 YEARS.

SPENDING ON GOLF HAS DOUBLED IN THE 1990s. HISTORICALLY, AT AGE 50, THE NUMBER OF ROUNDS PLAYED DOUBLES COMPARED TO THOSE PLAYED AT AGE 30.




INTRAWEST'S EARNINGS PER SHARE INCREASED AT A COMPOUND AVERAGE GROWTH RATE OF 56% OVER THE PAST FIVE YEARS.

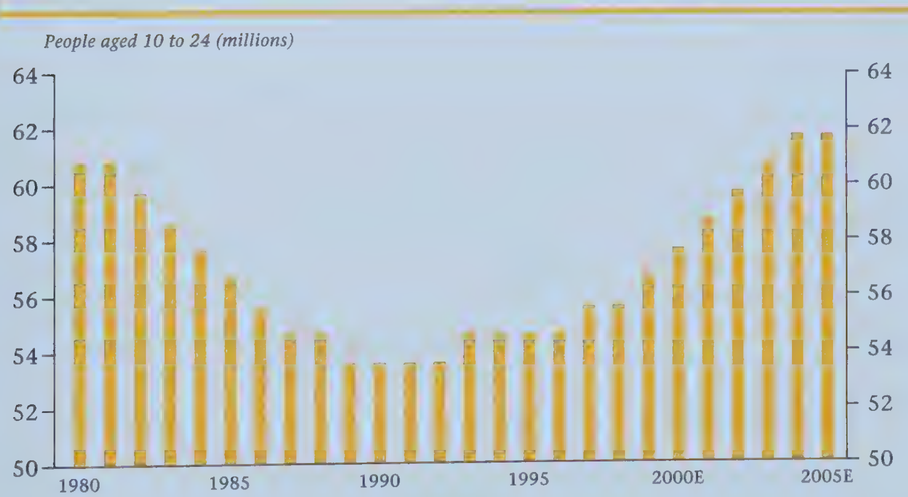


The boom in leisure time activities has followed the baby boomers and will continue with the echo boom. The best documentation for the effect of this Recreational and Revenue explosion is in the growth of companies positioned to take advantage of the demographics wave. Intrawest is foremost among them.

**Think about this in personal terms.** How much leisure time would you like to spend with your family now, and in the years just around the corner? A few days? A visit to one of Intrawest's resorts for skiing, biking or golf is appropriate. A few weeks? The Intrawest Resort Club makes sense. A little more time? A mountain chalet or golf course townhome becomes the logical choice.

Your desire for a wealth of experiences and that perfect day on the trail or at the links reflects the growth ahead for Intrawest.

## ECHO BOOM REVERSES TREND




We are just coming out of a 12-year decline in the number of people aged 10 to 24. This has now reversed and the number of people in this age group is growing dramatically. This translates into huge growth for the industry.

## RESORT DEVELOPMENT LIST

| Project Name | Ownership Interest | Total Units | Project Description and Status at August 31, 1998 |
|---|---|---|---|
| **WHISTLER/BLACKCOMB** | | | |
| Lost Lake Lodge | 77% | 100 | Condominium-hotel units for sale; construction completed June 1998; 96 units sold. |
| Pinnacle Heights | 77% | 9 | Exclusive townhomes for sale; construction started February 1998 with scheduled completion August 1999; 6 units pre-sold. |
| The Ridge at Taluswood | 88% | 26 | Townhomes for sale; construction of Phase I (15 units) completed January 1998; fully sold. Construction of Phase II (11 units) started April 1998 with scheduled completion November 1998; 4 units pre-sold. |
| Forest Creek | 77% | 12 | Townhomes for sale; construction started May 1998 with scheduled completion January 1999; 3 units pre-sold. |
| Blackcomb Lands | 77% | 142 | Land to be developed over two to three year period. |
| Taluswood Lands | 77% | 220 | Land to be developed over four to five year period. |
| Whistler Lands | 77% | approx. 800 | Land to be developed over 10 year period. |
| **TREMBLANT** | | | |
| Le Saint Andrew's | 100% | 14 | Single-family lots for sale; construction of infrastructure completed August 1994; 9 lots sold. |
| Les Pignons | 100% | 15 | Detached townhomes for sale; construction of Phase I (5 units) completed May 1996; fully sold. Construction of Phase II (10 units) completed December 1997; 6 units sold. |
| Le Lodge de la Montagne | 100% | 139 | Condominium-hotel units for sale; construction started September 1997 with scheduled completion October 1998; fully pre-sold. |
| Refuge des Cerfs | 100% | 66 | Single-family lots for sale; construction started November 1997 with scheduled completion December 1999; 16 lots pre-sold. |
| Le Plateau | 100% | 98 | Townhomes for sale; construction started May 1998 with scheduled completion June 2000; 8 units pre-sold. |
| La Tour des Voyageurs | 100% | 163 | Condominium-hotel units for sale with commercial space; construction started May 1998 with scheduled completion June 1999; 99 units pre-sold. |
| Plaza Commerciale | 100% | approx. 5,000 sq ft | Commercial space; construction started June 1998 with scheduled completion October 1998; fully pre-leased. |
| Mont Tremblant Lands | 100% | approx. 1,800 | Land to be developed over 10 to 15 year period. |
| **KEYSTONE** | | | |
| Ski Tip Ranch | 50% | 46 | Townhomes for sale; Phase I (28 units) fully sold. Construction of Phase II (18 units) completed May 1998; 16 units sold. |
| Silver Mill | 50% | 130 | Condominium-hotel units for sale with retail and restaurant space; construction completed December 1997; 123 units sold. |
| Buffalo Lodge & The Dakota | 55% | 157 | Condominium-hotel units for sale; construction started May 1997 with scheduled completion September 1998; 126 units pre-sold. |
| Expedition Station | 60% | 92 | Condominium-hotel units for sale; construction started May 1998 with scheduled completion June 1999; 57 units pre-sold. |
| Elk Run | 50% | 81 | Single-family lots for sale; construction started May 1998 with scheduled completion November 1998; 52 units pre-sold. |
| Red Hawk Lodge and Townhomes | 60% | 140 | Condominium-hotel units and townhomes for sale; construction to begin spring 1999 with scheduled completion spring 2000. |
| Trading Post | 60% | 116 | Condominium-hotel units for sale; construction to begin spring 1999 with scheduled completion summer 2000. |
| Keystone Lands | 60% | approx. 2,400 | Land to be developed over 10 to 15 year period. |
| **SUN PEAKS** | | | |
| Fireside Lodge | 100% | 72 | Condominium-hotel units for sale; construction completed April 1998; 31 units sold. |
| Forest Trails | 100% | 36 | Townhomes for sale; construction of Phase I (20 units) started April 1998 with scheduled completion January 1999; 11 units pre-sold. Construction of Phase II (16 units) to begin spring 1999 with scheduled completion summer 2000. |
| Sun Peaks Lands | 100% | approx. 100 | Land to be developed over seven year period. |

| Project Name | Ownership Interest | Total Units | Project Description and Status at August 31, 1998 |
|---|---|---|---|
| **PANORAMA** | | | |
| Ski Tip Lodge | 100% | 31 | Condominium-hotel units for sale and Daylodge with retail and restaurant space; construction completed January 1998; 26 units sold. |
| Tamarack Lodge | 100% | 46 | Condominium-hotel units for sale; construction completed June 1998; 30 units sold. |
| Greywolf Lots | 100% | 42 | Single-family lots for sale; construction of Phase I (25 units) infrastructure completed October 1997; 19 units pre-sold. Construction of Phase II (17 units) started July 1998 with scheduled completion July 1999. |
| The Hearth Stone | 100% | 28 | Townhomes for sale; construction started May 1998 with scheduled completion February 1999; 25 units pre-sold. |
| Panorama Lands | 100% | approx. 1,300 | Land to be developed over 10 year period. |
| **STRATTON** | | | |
| Long Trail House | 100% | 142 | Condominium-hotel units for sale; construction started April 1998 with scheduled completion June 2000; 49 units pre-sold. |
| Stratton Springs | 100% | 32 | Townhomes for sale; construction to begin fall 1998 with scheduled completion fall 1999; 4 units pre-sold. |
| Stratton Lands | 100% | approx. 1,100 | Land to be developed over 10 to 15 year period. |
| **SNOWSHOE** | | | |
| Camp 4 | 100% | 89 | Townhomes for sale; construction of Phase I (17 units) completed December 1997; 8 units sold. Future units to be developed over two to three year period. |
| Rimfire | 100% | 142 | Condominium-hotel units for sale; construction started May 1998 with scheduled completion April 2000; 55 units pre-sold. |
| Snowshoe Lands | 100% | approx. 600 | Land to be developed over 10 year period. |
| **MAMMOTH** | | | |
| Juniper Springs | 100% | 174 | Condominium-hotel units for sale; construction started May 1998 with scheduled completion October 1999; 144 units pre-sold. |
| The Timbers | 100% | 32 | Townhomes for sale; construction to begin fall 1998 with scheduled completion winter 1999. |
| Mammoth Lands | 100% | approx. 2,100 | Land to be developed over 10 year period. |
| **COPPER** | | | |
| Copper Springs | 100% | 108 | Condominium-hotel units for sale; construction started April 1998 with scheduled completion September 1999; fully pre-sold. |
| The Crossroads | 100% | 126 | Condominium-hotel units for sale; construction to begin spring 1999 with scheduled completion fall 2000. |
| Copper Lands | 100% | approx. 1,000 | Land to be developed over 10 year period. |
| **SQUAW VALLEY** | 100% | approx. 800 | Land to be developed over five to eight year period. |
| **EAGLES NEST** | 50% | approx. 500 | Land to be developed over five to eight year period. |
| **MOUNTAIN CREEK** | 100% | approx. 1,000 | Land to be developed over 10 year period. |
| **SANDESTIN** | | | |
| Acquired Inventory and Property Under Development | 50% | 202 | Condominium units, townhomes and single-family lots for sale; 31 units/lots sold. |
| Acquired Inventory | 95% | 54 | Condominium units, townhomes and single-family lots for sale; 14 units/lots sold. |
| Sandestin Lands | 95% | approx. 2,400 | Land to be developed over 10 to 15 year period. |
| **MONT STE. MARIE** | 100% | | Total potential development under review. |

## OPERATING HIGHLIGHTS

1998 saw considerable growth in Intrawest's revenue and earnings as the Company has started to benefit from extending its resort operations/resort development formula to its more recent acquisitions. The Company produced and sold almost double the number of real estate units in 1998 compared with 1997, as more resorts contributed to the sales mix. The increased accommodation base provided by these new units, combined with new attractions and amenities, drew larger numbers of visitors, particularly higher-spending destination visitors, to the resorts in 1998. At the same time the Company continued to broaden its revenue-generating attractions thereby increasing revenue per visit.

These developments produced the following financial results:

- A 55% increase in total revenue from $389 million to $601.7 million, with ski and resort revenue increasing 40% and real estate sales revenue increasing 92%.
- A 52% increase in income from continuing operations to $43 million and a 23% increase in income per share from continuing operations to $1.25. The public offering and shares issued in partial consideration for the acquisitions of Whistler and Copper during the second half of 1997 increased the weighted average number of shares outstanding during 1998 by 24%.
- A 23% increase in operating profit from ski and resort operations and a 92% increase in operating profit from real estate sales.
- A 46% increase in total company EBITDA from $88.6 million to $129.6 million. Total company EBITDA is computed as income before interest (including previously capitalized interest in real estate cost of sales), taxes, depreciation and amortization. It is not a term that has an established meaning under generally accepted accounting principles, however management believes it is an important measure of operating performance and it is generally used by investors to evaluate companies in the resort industry.

## REVIEW OF SKI AND RESORT OPERATIONS

During 1998 the Company increased its ownership of Mammoth from 33% to 58% and as a result Mammoth's operations have been proportionately consolidated from the beginning of the year. By contrast, in 1997 Mammoth was accounted for as an equity investment and the Company's share of Mammoth's net income was disclosed as income from equity accounted investment in the consolidated statement of operations. The Company acquired Mountain Creek in February 1998 and the redevelopment and repositioning of the resort is currently under way. All net costs incurred at the resort have therefore been capitalized.

Revenue from ski and resort operations was $367.4 million in 1998, an increase of $104.2 from 1997. The proportionate consolidation of Mammoth added $49.7 million to ski and resort operations revenue and a full 12 months of operations for the resorts acquired midway through fiscal 1997 (Whistler, Copper and Mont Ste. Marie) increased revenue a further $12.8 million. Same-resort revenue growth amounted to $41.7 million, representing a 16% increase over 1997. Since 1993 same-resort revenue has grown at an average annual compound rate of 20.7%. The 16% increase in same-resort revenue from 1997 to 1998 was derived from a 4% increase in skier visits, an 8% increase in revenue per skier visit and a 4% increase in non-winter revenue. Skier visits were higher at all resorts in 1998, except for Copper where they declined 4% due mainly to a reduction in some heavily discounted ticket programs. Whistler/Blackcomb and Snowshoe experienced record skier visits in 1998, with increases from 1997 of 6% and 24% respectively. The significant improvement at Snowshoe was partly a return to average historical visits after a below-average year in 1997 and partly a response to the extensive capital additions made in the summer of 1997.

The 8% increase in same-resort revenue per skier visit in 1998, ranging from 2% at Snowshoe to 20% at Tremblant, was due to improvements at every resort. Revenue per skier visit is a function of ticket prices, ticket yields and revenue from non-ticket sources such as ski school, food services, and retail and rental shops. Ticket yields reflect the mix of ticket types (e.g. adult, child, season pass and group) and the amount of discounting of full-price tickets. The Company actively manages its ticket yields in order to optimize the volume, timing, pricing and mix of visits thereby maximizing its ticket revenues. The Company also seeks to capture a high proportion of visitor spending by expanding and enhancing its range of non-ticket services and activities.

Although skier visits at Tremblant were essentially the same in 1998 as in 1997 (mainly as a consequence of the loss of visits because of the ice storms), there was a 5% shift from local to destination visits that resulted in increased spending per visit, particularly from retail shops and lodging. Whistler/Blackcomb also experienced an increase in destination visits which raised revenue per visit by 4%, with ski school and retail shops showing the greatest improvement. Revenue per visit at Copper, which prior to Intrawest's acquisition was significantly below other Intrawest resorts, increased 11% from 1997

mainly due to a 13% increase in average ticket yields. At Stratton revenue per visit increased 8% principally due to higher ticket yields and additional retail and rental business. The 2% increase in revenue per visit at Snowshoe reflects the fact that skier visits increased 24% as the Company's focus in 1998 was to attract new visitors to the resort.

Same-resort non-winter ski and resort operations revenue was $34.8 million in 1998 compared with $25.6 million in 1997. Over the past few years, the Company has set out to expand its revenue base through four seasons and non-winter revenue increased to11% of annual ski and resort revenue in 1998 from 9% in 1997. The largest increase was at Tremblant, which experienced record visitors during the summer and fall period, driving significantly higher golf, lodging and retail business.

The following table shows the composition of ski and resort operations revenue for 1998 and 1997.

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Revenue (millions) | Proportion (%) | Revenue (millions) | Proportion (%) |
| Lifts | **$172.8** | 47.0 | $129.8 | 49.3 |
| Retail shops | **54.4** | 14.8 | 39.5 | 15.0 |
| Food and beverage | **53.3** | 14.5 | 38.5 | 14.6 |
| Lodging and property management | **34.6** | 9.4 | 22.2 | 8.4 |
| Ski school | **25.9** | 7.0 | 18.1 | 6.9 |
| Golf | **7.9** | 2.2 | 7.2 | 2.7 |
| Other | **18.5** | 5.1 | 7.9 | 3.1 |
| | **$367.4** | 100.0 | $263.2 | 100.0 |

The decline in the relative proportion of lift revenue in 1998 was mainly due to the inclusion of summer and shoulder season revenues at Whistler and Copper for the first year. Golf revenue in 1998 increased by 10% over 1997. The relative significance of golf will increase in future years as a result of the opening of new courses under construction at Panorama and Mammoth, and acquisitions subsequent to year end (see Recent Developments).

Operating profit from ski and resort operations increased 23% to $83.2 million in 1998 from $67.4 million in 1997. Operating profit as reported in 1997 was higher than normal because seasonal losses during the July to December period occurred prior to the acquisition dates of Whistler and Copper. On a pro-forma, same-resort basis (i.e. excluding Mammoth and normalizing the 1997 results for Whistler and Copper for 12 months) operating profit increased by $10.7 million or 19%. Pro-forma operating profit was higher at all resorts in 1998 except for Copper, Panorama and Mont Ste. Marie which experienced small declines. Pro-forma operating profit increased 16% at Whistler/Blackcomb as a result of revenue enhancements, synergies from the merged operation and the realization of certain economies of scale. Operating profit increased significantly at Tremblant, Snowshoe and Stratton primarily as a result of the improvements in revenue noted above set against a relatively fixed cost structure.

The Company's ski and resort operations margin, as reported, was 22.6% in 1998 compared with 25.6% in 1997. As mentioned above, operating profit in 1997, and therefore the margin, was higher because of the timing of the acquisitions of Whistler and Copper. On a pro-forma, same-resort basis the margin improved to 21.1% in 1998 from 20.5% in 1997. The pro-forma margin was modestly lower in lodging and higher in all other operating departments with ski school and retail shops showing the most significant increases. The improvements in ski school were mainly due to higher destination visits at Whistler/Blackcomb and Tremblant, the introduction of new programs (e.g. semi-private lessons), and organizational changes in the ski school management structure. Increased higher-margin rental business combined with economies of scale in retail purchasing increased the margin on retail.

## REVIEW OF RESORT REAL ESTATE OPERATIONS

Revenue from the sale of resort real estate increased 92% to $226.4 million from $118.2 million in 1997. The increase was due to increases in sales prices and to the production and delivery of significantly more units in 1998, as some of the recently acquired resorts began to generate sales. The average sales price of townhomes increased 12% in 1998 compared with 1997 and the average sales price of condo-hotel units increased 16%.

In total, excluding the Resort Club, Intrawest closed 763 sales transactions in 1998 compared with 465 transactions in 1997. The majority of the sales at Whistler/Blackcomb were generated by two condo-hotel projects, One Whistler Village and Lost Lake Lodge, and two townhome projects, Mountain Star and the Ridge at Taluswood. At Tremblant the Company sold out the Algonquin, the balance of units in Kandahar, and a number of smaller townhome projects. Approximately two-thirds of the sales closings at Keystone were provided by Silver Mill, the fourth building in River Run Village, and the Company also sold out the second phase of the Ski Tip and Trappers Crossing projects. The first sales were recorded at Stratton in 1998 from the SnowBridge

townhomes, and at Copper most of the sales related to lots and land leases.

The Company's pre-sale strategy not only mitigates risk, but also increases the predictability of earnings. As of August 31, 1998, the Company had pre-sold 672 units for approximately $173 million which it expects to close in fiscal 1999 and a further $109 million of pre-sales due to close in fiscal 2000. A significant portion of these pre-sales relates to new village developments at Copper, Mammoth, Snowshoe and Stratton. In all cases initial selling prices were considerably higher than the prevailing market.

The Resort Club contributed $21.9 million in sales revenue in 1998, marginally higher than 1997. In 1997 the Company operated two off-site sales offices in Vancouver and Ottawa as well as its club locations at Blackcomb and Tremblant, but these off-site locations were closed in the spring of 1997 because the revenue they generated did not support the costs to maintain them. Excluding the off-site locations, Resort Club sales at Blackcomb and Tremblant increased 9% in 1998 compared with 1997. This was due to a 4% increase in the number of points sold and a 5% increase in revenue per point. Add-on point sales (i.e. additional points purchased by existing club members) and member referral point sales accounted for most of the increase in resort club revenue, and attest to the high degree of member satisfaction with the Club. In addition, these programs produce higher margin sales since they incur minimal marketing expenses.

Operating profit on resort real estate sales increased 92% (the same percentage as the increase in real estate revenues) from $22.3 million in 1997 to $42.8 million in 1998. Increasingly the Company has transferred successful "project templates" to new developments and this practice has helped to control costs by reducing design and engineering fees and reducing construction uncertainties. The Company has also continued to enhance its project reporting systems so that potential cost overruns are detected at an early stage and remedial action taken. The margin on real estate sales in 1998 was 18.9%, exactly the same as in 1997, and well above industry averages for home builders.

The majority of the condo-hotel projects which the Company develops contain ground-level retail space, which is either leased to third party operators or used by the Company for its own sports shops. Rental revenue derived from third party operators increased from $3.1 million in 1997 to $4.4 million in 1998 chiefly as a result of new condo-hotel properties at Tremblant and Keystone.

## REVIEW OF CORPORATE OPERATIONS

### Interest and Other Income

Interest and other income increased to $3.6 million in 1998 from $3.2 million in 1997. Interest income on cash balances and receivables increased by $1.2 million to $3.3 million, mainly due to the investment of net proceeds from the debenture and equity offerings in 1998. Other income, which mainly comprises fee income and miscellaneous gains and losses, was $0.3 million in 1998 compared with $1.1 million in 1997.

### Interest Costs

The Company incurred total interest costs of $42 million in 1998 compared with $35.5 million in 1997. The proportionate consolidation of Mammoth increased interest by $1.1 million and a full year's interest at Whistler and Copper compared with seven months in 1997 added a further $2.1 million. The Company's $125 million debenture offering, which closed in November 1997, increased interest by $3.1 million, net of reduced interest on debt repaid from a portion of the debenture proceeds. The balance of the change in interest costs was due to interest on new debt to fund capital improvements and real estate development activity at the resorts, partially offset by reduced interest on non-resort debt.

Incurred interest is either capitalized to properties and resort assets under development or charged to income. During 1998 $31 million of interest incurred during the year was charged to income – $22.9 million as interest expense, $4.8 million as a component of real estate costs, and $3.3 million in discontinued operations. By comparison, in 1997 $26.4 million of interest incurred was charged to income. In addition, real estate costs include interest incurred and capitalized to properties in prior years of $6.8 million in 1998 and $3.4 million in 1997.

Under its debenture covenants, Intrawest is required to maintain an EBITDA to interest coverage of at least 1.5 times. EBITDA is measured as earnings before interest (including previously capitalized interest in real estate cost of sales), taxes, depreciation and amortization. The results of the discontinued operations are included in the coverage calculation. For 1998 EBITDA to interest coverage was 3.7 times compared with 3.1 times in 1997.

### Depreciation and Amortization

Depreciation and amortization increased from $26 million in 1997 to $38 million in 1998. The proportionate consolidation of Mammoth added $2.8 million to depreciation in 1998 and 12 months of depreciation at

Whistler and Copper versus seven months in 1997 added a further $3.7 million. The balance of the increase was attributable primarily to depreciation on new capital expenditures at the resorts and amortization of deferred charges.

### General and Administrative Costs

All general and administrative costs incurred by the resorts are included in ski and resort operation expenses. Similarly, general and administrative costs related to the development of real estate are initially capitalized to properties, and then expensed to real estate costs when the properties are sold. Corporate general and administrative costs increased from $8.9 million in 1997 to $10.4 million in 1998. The increase was due mainly to higher insurance, corporate capital tax and incentive-based compensation. As a percentage of revenues, corporate general and administrative costs declined from 2.3% in 1997 to 1.7% in 1998. The Company continually reviews its overhead costs and has instituted procedures to reduce or eliminate costs where appropriate.

### Income Taxes

The Company provided for income taxes of $13.4 million in 1998 compared with $7.1 million in 1997. This equates to an effective tax rate of 22% in 1998, up from 18% in 1997. The increase in the effective tax rate was primarily due to higher taxable income in the United States from Mammoth and from the increase in US real estate sales. Additional information on income taxes is provided in Note 11 to the consolidated financial statements.

## DISCONTINUED OPERATIONS

The consolidated financial statements disclose the results of the Company's non-resort business as discontinued operations. The discontinued operations incurred a loss of $2 million in 1998 compared with a loss of $1.2 million in 1997. During 1998 the Company sold $46.8 million of non-resort properties including its interests in Park Highland, The Newmark, Arbor Place and Belltown Court in metropolitan Seattle, and Signal Hill and the majority of the first phase of Coach Hill in Calgary. In addition, the Company recovered its investment in Station Tower as a result of the sale of that property.

The net income or loss and the net cash flow generated by the non-resort assets accrue to the holders of the non-resort preferred shares and do not impact earnings or cash flow available to the common shareholders.

## REVIEW OF ASSETS

Total assets grew by 34% to $1,466.6 million during 1998, with an increase in resort assets of $414.4 million being partially offset by a decline in discontinued non-resort assets of $45.8 million. The discontinued non-resort assets now constitute 7% of the Company's total assets compared with 11% at the end of fiscal 1997.

The increase in resort assets during 1998 was substantially due to the acquisitions of Mountain Creek and the Company's increased investment in Mammoth, the extensive capital improvements made at the resorts during the year and the ramp-up in the production of real estate projects at new resorts.

## CAPITAL STRUCTURE AND LIQUIDITY

Intrawest's debt to equity ratio was 0.94: 1 at June 30, 1998 compared with 0.98: 1 at June 30, 1997. The reduction resulted from a 31% increase in shareholders' equity, partially offset by a 25% increase in debt. The decline in the value of the Canadian dollar against the US dollar during 1998 increased the foreign currency translation adjustment, and therefore shareholders' equity, by $19.5 million. This amount represents the Canadian dollar increase in the net book value of the Company's US investments. Since year end the Company has issued additional debt, primarily in connection with acquisitions, and its debt to equity ratio has increased (see Recent Developments).

On June 24, 1998, the Company raised $103.4 million net in a public offering of 3.85 million common shares in the United States and Canada. The proceeds were used to retire a portion of existing debt and for general corporate purposes. This offering, combined with proceeds from the exercise of stock options in the normal course and net of the $9 million redemption of NRP shares, increased capital stock by 26% from $382.3 million at the end of fiscal 1997 to $483 million at June 30, 1998. Subsequent to fiscal year end, the Company issued an additional 1.125 million shares for net proceeds of $32.5 million in connection with acquisitions (see Recent Developments).

At June 30, 1998, total debt amounted to $612.8 million, an increase of $123.0 million from June 30, 1997. On December 2, 1997, the Company issued $125 million of 6.85% senior unsecured debentures due 2002. The proceeds were principally used to fund the acquisitions of Mountain Creek and the Company's additional interest in Mammoth, and to repay a portion of the term debt at Whistler/Blackcomb. Subsequent to June 30, 1998, the Company issued a further US $125 million of senior

unsecured notes (see Recent Developments). A portion of the proceeds were used to repay term debt related to Stratton and Snowshoe. The Company expects to continue to raise long-term, fixed-rate financing of this type at the corporate level and to reduce its secured ski and resort operations term debt at the subsidiary level.

At June 30, 1998, 45% of total debt bore interest at floating rates, down significantly from 57% at June 30, 1997. Intrawest has developed a hedging policy to manage its interest rate risk. Interim financing for real estate construction is normally arranged on a floating rate basis. Since the Company is engaged primarily in the development of projects with a short construction and sell-out timetable, exposure to higher interest rates on construction financing is not significant. Debt on defined income-stream properties (for example, commercial rental properties) is normally arranged on a longer-term, fixed-rate basis with the objective of matching the financing with the duration characteristics of the property. It is also the Company's policy to fix the interest on approximately 50% of its general corporate and ski and resort operations debt, although a lower proportion may be hedged temporarily in anticipation of a refinancing. At year end, 44% of such debt bore interest at floating rates. A 1% change in the rate of interest on this debt would impact annual earnings by approximately $1.9 million before income taxes.

The Company requires liquidity for debt service, capital expenditures and acquisitions. Funds for these purposes are provided by a combination of cash flow from operations, short- and long-term borrowings and, for larger acquisitions, equity capital. In addition, the Company's resorts generally have negative cash flows from May to November and revolving lines of credit are needed to finance working capital requirements during this period. Cash flow from operations was $96.3 million in 1998, 67% higher than in 1997. The reasons for this increase are described in the review of operations above.

The Company estimates that it will make capital expenditures totalling approximately $170 million in fiscal 1999, comprising approximately $24 million of capital maintenance and $146 million of capital expansion. The majority of the capital expansion is taking place at the Company's newer acquisitions – Whistler, Copper and Mountain Creek. Historically, the Company's business strategy has been to make significant on-mountain enhancements at its resorts soon after they are acquired in order to attract increased destination visitors and to broaden the revenue base. Cash on hand and the proceeds of recent financings will finance the majority of the fiscal 1999 capital expenditures.

Over the past two years the Company has significantly increased its production of real estate units and this trend will continue as projects are developed at recently acquired resorts. Currently the Company has approximately 1,200 units under construction at nine different resorts. To fund the majority of this development activity, the Company has arranged three revolving construction lines of credit with major Canadian and US banks. This financing is significantly more efficient and less expensive than traditional individual project loans and provides the Company with added flexibility.

The Company successfully retired or refinanced $90.7 million of debt which matured in 1997. During 1999 $97.9 million of debt is scheduled to be repaid – $51.9 million of general corporate and ski and resort operations debt, and $46 million of debt on properties. A portion of the general corporate and ski and resort operations debt is expected to be refinanced and the balance of the debt repayments will be funded from cash on hand and future cash flow from operations. The Company expects to repay most of the debt on properties from property sales after completion of construction.

Intrawest's target is to retain approximately $40 million of cash balances and unused lines of credit at all times. At June 30, 1998, the Company held cash and unused lines of $134.7 million, which was higher than normal because it included the residual proceeds of the equity offering. A portion of these funds was used for acquisitions (see Recent Developments) and capital improvements at the resorts.

During 1998 the Company sold its four non-resort properties in Seattle and repaid $28.3 million of discontinued operations debt, leaving $15.4 million of remaining discontinued operations debt at June 30, 1998. The majority of this debt is secured by two revenue-producing properties, which generate sufficient rental income to satisfy debt servicing requirements. Intrawest plans to sell its remaining non-resort properties and to collect its non-resort receivables and other assets in an orderly manner over the next two to three years. The net cash flow generated by these assets must be distributed to the holders of the non-resort preferred shares to redeem their shares. The first redemption, covering the net cash flow up to June 30, 1997, amounted to $9 million, and was made on September 30, 1997. The net cash flow for the year ended June 30, 1998 will be used to redeem $20.9 million of the non-resort preferred shares on September 30, 1998.

## RISK AND RISK MANAGEMENT

Intrawest's resort operations and resort real estate businesses are managed to deal with risks that are common to most companies, i.e. the risks of severe economic downturn, competition and currency fluctuations, and the more industry-specific risks of unfavourable weather patterns and construction overruns.

### Economic Downturn

A severe economic downturn could reduce spending on resort vacations and weaken sales of recreational real estate. Although skiing is a discretionary recreational activity that one might expect to be impacted by a significant economic slowdown, Intrawest's operating results have historically not shown this to be the case. During 11 years of ownership of Blackcomb, cash flow increased every year despite widely varying economic conditions. Blackcomb, as well as Intrawest's other resorts, attracts customers who have incomes well above the national average and are therefore less likely to have their vacation plans impacted by an economic recession. In addition, Intrawest's resorts draw their visitors from a wide variety of locations and this diversity shelters these resorts somewhat from regional economic conditions.

Real estate developers face two major risks from an economic downturn: land risk and completed inventory risk. Land risk arises when land is purchased with debt and economic conditions deteriorate resulting in higher holding costs and reduced profitability, or worse, loan defaults and foreclosure. Intrawest has reduced its land risk at certain of its resorts by acquiring land at low cost with the purchase of a resort or by securing land through options and joint ventures. The extensive land holdings at Tremblant, Stratton, Snowshoe, Mountain Creek and Panorama were all low cost acquisitions with the resort. At Blackcomb and Squaw Valley, the Company secured its land holdings through options rather than outright purchases. Options are exercised for specific project sites only when permits are in place and construction is set to start. Similarly at Whistler the land acquisition financing is repaid when building permits are issued, subject to minimum annual repayments. Intrawest secured its land holdings at Keystone by forming a joint venture with the land owner under which land is only paid for as completed units are sold and construction financing is repaid.

Completed inventory risk arises when completed units cannot be sold and construction financing cannot be repaid. Intrawest has mitigated this risk by pre-selling a significant portion of its units prior to commencement of, and during, construction. At June 30, 1998, the Company had only 99 unsold units in its resort real estate inventory and 75% of the approximately 1,200 resort units currently under construction were pre-sold. Generally the Company has sufficient pre-sales in place to cover its construction and other real estate debt by 1.5 to 2 times. In the event of a severe economic downturn in the real estate business, the Company could complete construction of its pre-sold units, transfer title to purchasers, and repay all of its real estate financing.

### Competition

The mountain resort industry has significant barriers to entry that prevent new resorts from being created. In fact, no new major resort has been created since 1981. Competition therefore is essentially confined to existing resorts. Intrawest's resorts compete for destination visitors with other mountain resorts in Canada, the United States, Europe and Japan. They also compete for day skiers with other ski areas within each resort's local market area. Skier visits in North America have been relatively flat over the past 10 years which has increased competition between resort owners. The Company's strategy is to acquire resorts that have natural competitive advantages, for example in terms of location, vertical drop and quality of terrain. The Company also enhances its competitive position by investing in capital improvements such as snowmaking, high-speed lifts and on-mountain restaurants, and by ensuring high quality of service. The Company has invested approximately $230 million in resort capital improvements over the last 18 months.

Intrawest also faces competition from other leisure industry companies such as cruise ship lines and amusement parks. The Company's strategy is to build and establish a network of resorts and promote brand recognition to strengthen its competitive position vis-à-vis such competitors. The diversity of Intrawest's resorts in terms of vacation experience, which provides guests with a variety of vacation choices within the Intrawest network, also enhances the Company's competitive position.

The Company owns substantially all of the supply of developable land at the base of its resorts and hence competition in real estate is somewhat restricted. Expertise in all aspects of the development process, including resort master-planning, project design, construction, sales and marketing, and property management also gives the Company a distinct competitive advantage. In the resort club business, the Company has established

a competitive position through its ownership of the mountain facilities, and by offering a high standard of accommodation and a flexible point-based system.

### Currency Fluctuations

Over the past several years the Company's Canadian resort operations have benefited from the lower Canadian dollar relative to the US dollar, the Japanese yen and European currencies. The price of a lift ticket at Intrawest's Canadian resorts has been 70% or less of the price at comparable US resorts. Along with accommodation and food and beverage costs, this has made vacationing in Canada more affordable for destination visitors. A significant shift in the value of the Canadian dollar, particularly against its US counterpart, could impact the Company's earnings from its Canadian assets.

Intrawest finances its US dollar assets with US dollar debt and hence is not exposed to foreign exchange risk with respect to its debt servicing. In addition, cash flow generated by US operations is generally retained in the United States and invested in expansion of US assets. Similarly cash flow generated at the Canadian resorts is generally reinvested in Canada. Cross border cash transactions and currency exchanges are kept to a minimum.

Since Intrawest has income from both Canadian and US sources, the Company is exposed to foreign currency exchange risk in its reported earnings. Revenues and expenses of the Company's US operations will be impacted by changes in exchange rates when such operations are reported in Canadian dollars. The impact of Canadian/US dollar exchange rate changes on the balance sheet are reflected in the foreign currency translation amount included in shareholders' equity and does not affect reported earnings.

### Unfavourable Weather Conditions

The Company's ability to attract visitors to its resorts is influenced by weather conditions and the amount of snowfall during the ski season. Intrawest manages its exposure to unfavourable weather in three ways: by being geographically diversified, by seeking to build its visits as evenly as possible through the seasons, and by investing in snowmaking.

Geographically diversified companies like Intrawest can reduce the risk associated with a particular region's economic and weather patterns. During the past three ski seasons, favourable and unfavourable weather conditions at different times across North America offset one another, allowing the Company to come within 1% of its budgeted skier visits on a same-resort basis. The more a resort can attract its visitors evenly through the season the less vulnerable it is to unfavourable weather at a particular time. Intrawest seeks to spread its visits by marketing to destination visitors who book in advance, stay several days and are less likely than day visitors to change their vacation plans, and by attempting to increase traffic mid-week and at non-peak times. Investing in snowmaking can also mitigate the impact of poor natural snow conditions. Snowmaking is particularly important in eastern North America due to the more variable weather conditions. Intrawest has invested heavily in snowmaking over the past few years and currently has 99-100% snowmaking coverage at Snowshoe and Mountain Creek, and 75% at each of Tremblant and Stratton.

### Construction Overruns

Intrawest is not in the construction business but rather engages general contractors to construct its real estate projects. The Company's practice is to structure its construction contracts on a fixed-price basis so that cost overruns are at the contractor's risk. The Company does employ construction experts who oversee the general contractors and ensure that problems are properly and quickly resolved. The Company has also developed a comprehensive and sophisticated project reporting system which helps to prevent potential cost overruns from going undetected.

## YEAR 2000 COMPLIANCE

Intrawest has implemented a disciplined process designed to ensure that its computer systems are Year 2000 compliant. The process involves comprehensive system reviews at all of the Company's resorts and real estate locations, testing of hardware and software, and modification or replacement of non-compliant systems. To date the system reviews have been substantially completed and testing is under way. Although a final assessment has not been completed, the Company estimates that the cost of the system reviews, testing and modifications will be approximately $1.5 million. No assurances can be given that this estimate is accurate or that actual results will not differ. Furthermore, due to the interdependent nature of computer systems, the Company may be adversely impacted in the Year 2000 depending upon whether its suppliers and other unaffiliated entities address the issue successfully.

## RECENT DEVELOPMENTS

On July 13, 1998, the Company purchased Sandestin resort in Florida for a total purchase price of approximately US $140 million, including about US $50 million of real estate under construction, working capital and other adjustments. The assets acquired comprise golf and other resort operations amenities and developable real estate. The purchase price was satisfied by cash and US $12.5 million of debt. Sandestin is the Company's first warm-weather resort acquisition and since the majority of its revenues are earned in the April to September period, it is expected to mitigate the traditional seasonality of mountain resort operations.

On July 16, 1998, the Company acquired a 15.7% equity interest in Compagnie des Alpes ("CDA"), a French public company which is the world's largest ski operator with over 10 million skier visits. On the same date the Company acquired a 49% interest in CDA's Italian subsidiary. The total purchase price of these two acquisitions was approximately $35.3 million, paid for in cash. The investment in CDA gives Intrawest a foothold in Europe at minimal risk and opens up significant joint marketing and business opportunities. As part of these transactions, CDA's majority shareholder acquired one million common shares of the Company from treasury at a price of $29 per share.

On July 23, 1998, the Company acquired the assets of Raven, the owner and operator of two resort-quality golf courses in Arizona, for approximately US $30.8 million. The purchase price was satisfied by cash and US $5 million of debt. The acquisition of Raven provides the Company with a vehicle to enhance and expand its existing golf properties, to develop new golf properties, and to build golf destination resorts. As part of the transaction, the former owner of Raven acquired 125,000 common shares of the Company from treasury at a price of US $19.375 per share.

On August 19, 1998, the Company issued US $125 million 9.75% senior unsecured notes due 2008. The proceeds were used to repay operating lines and to fund the Company's fiscal 1999 capital expenditure and real estate development programs. As a result of these recent developments, the Company's debt to equity ratio has increased to approximately 1.14 : 1 from 0.94 : 1 at year end.

## OUTLOOK

### Ski and Resort Operations

The recent acquisitions of Mountain Creek, Sandestin, Compagnie des Alpes and Raven further diversify the Company's revenue base and help to mitigate the traditional seasonality of the ski operations. The Company estimates that with these acquisitions its ski and resort operations revenue generated during the summer months will double to approximately 18% of annual ski and resort operations revenue.

The extensive capital expenditures that the Company has made this summer are directed towards the following objectives: enhancing competitiveness by increasing the length of the season (e.g. snowmaking improvements), responding to capacity constraints resulting from growth (e.g. new lifts and restaurants), extending the length of the guests' stay (e.g. new trails, golf courses and attractions), and increasing the number of revenue-generating opportunities (e.g. new retail and rental outlets). These expenditures are expected to increase revenues in 1999 and to increase utilization of the resorts at all times of the season.

In fiscal 1999 the Company expects to continue to gain synergies from the merger of Whistler and Blackcomb, and economies of scale from its network of resorts. In addition, the growth in real estate production across all of the Company's resorts will provide accommodation for destination skiers and therefore drive visits and revenue per visit higher. The recent decline in the value of the Canadian dollar against the US dollar is also expected to increase visits to the Company's Canadian resorts, particularly Whistler/Blackcomb and Tremblant.

### Real Estate

The Company expects real estate revenues and operating profits to increase significantly in 1999 due to higher production levels at Tremblant, Keystone, Stratton and Snowshoe, and sales of the first projects at Mammoth, Copper and Sandestin. At August 31, 1998, the Company already had pre-sales of approximately $173 million that it expects to close during fiscal 1999. The resort club improved its profitability in 1998 and the Company anticipates further increases in 1999 as a result of fine-tuning marketing programs and the opening of the third club location at Palm Desert, California slated for November 1998.

## MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Intrawest Corporation have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Company's independent auditors, KPMG, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included below.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed entirely of outside directors. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

Joe S. Houssian
Chairman, President and Chief Executive Officer

Daniel O. Jarvis
Executive Vice President and Chief Financial Officer

September 10, 1998

## AUDITORS' REPORT

**To the Shareholders of Intrawest Corporation**

We have audited the consolidated balance sheet of Intrawest Corporation as at June 30, 1998 and the consolidated statements of operations, retained earnings, cash flow from operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Significant differences between Canadian and United States accounting principles as they affect these consolidated financial statements are explained and quantified in note 20.

The consolidated financial statements as at June 30, 1997 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 5, 1997.

KPMG

Chartered Accountants
Vancouver, British Columbia
September 10, 1998

## CONSOLIDATED STATEMENTS OF OPERATIONS

| For the years ended June 30 | 1998 | 1997 |
|---|---|---|
| | (in thousands of dollars except per share amounts) | |
| **Revenue** | | |
| Ski and resort operations | **$367,395** | $263,239 |
| Real estate sales | **226,380** | 118,190 |
| Rental properties | **4,354** | 3,143 |
| Interest and other income | **3,612** | 3,213 |
| Income from equity accounted investment (note 2(b)) | – | 1,190 |
| | **601,741** | 388,975 |
| **Expenses** | | |
| Ski and resort operations | **284,231** | 195,851 |
| Real estate costs | **183,567** | 95,858 |
| Rental properties | **2,004** | 2,181 |
| Interest (note 14) | **22,881** | 20,914 |
| Depreciation and amortization | **38,043** | 25,966 |
| General and administrative | **10,360** | 8,916 |
| | **541,086** | 349,686 |
| Income before income taxes, non-controlling interest and discontinued operations | **60,655** | 39,289 |
| Provision for income taxes (note 11) | **13,431** | 7,067 |
| Income before non-controlling interest and discontinued operations | **47,224** | 32,222 |
| Non-controlling interest | **4,236** | 3,927 |
| Income from continuing operations | **42,988** | 28,295 |
| Results of discontinued operations (note 3) | **(1,958)** | (1,202) |
| Net income for the year | **$ 41,030** | $ 27,093 |
| Income per common share | | |
| Income from continuing operations | **$ 1.25** | $ 1.02 |
| Net income* | **$ 1.25** | $ 1.05 |
| Weighted average number of common shares outstanding (in thousands) | **34,486** | 27,809 |

*Net income per common share for the year ended June 30, 1997 includes income per common share from discontinued operations for the six months ended December 31, 1996, amounting to $0.03. From January 1, 1997, the results of discontinued operations accrue solely to the holders of the non-resort preferred shares (note 10(a)).

## CONSOLIDATED BALANCE SHEETS

| As at June 30 | 1998 | 1997 |
|---|---|---|
| | (in thousands of dollars) | |
| **Assets** | | |
| Current assets | | |
| Cash and short-term deposits | **$ 117,037** | $ 51,723 |
| Other assets (note 7(a)) | **47,709** | 26,580 |
| Amounts receivable (note 6) | **55,664** | 53,573 |
| Properties (note 5) | | |
| Resort | **177,296** | 115,062 |
| Discontinued operations | **8,195** | 12,606 |
| | **405,901** | 259,544 |
| Ski and resort operations (note 4) | **613,349** | 406,643 |
| Goodwill | **79,160** | 79,275 |
| Properties (note 5) | | |
| Resort | **258,543** | 207,478 |
| Discontinued operations | **31,794** | 63,556 |
| Amounts receivable (note 6) | **43,612** | 41,080 |
| Other assets (note 7(b)) | **34,214** | 40,375 |
| | **$1,466,573** | $1,097,951 |
| **Liabilities** | | |
| Current liabilities | | |
| Amounts payable | **$ 125,536** | $ 71,290 |
| Deferred revenue | **17,577** | 4,191 |
| Bank and other indebtedness, current portion (note 8) | | |
| Resort | **96,047** | 88,565 |
| Discontinued operations | **1,843** | 2,173 |
| | **241,003** | 166,219 |
| Bank and other indebtedness (note 8) | | |
| Resort | **501,341** | 357,438 |
| Discontinued operations | **13,592** | 41,580 |
| Due to joint venture partners (note 12) | **22,250** | 14,963 |
| Deferred revenue | **13,602** | 5,793 |
| Deferred income taxes | **11,100** | 2,583 |
| Non-controlling interest in subsidiaries | **10,151** | 11,307 |
| | **813,039** | 599,883 |
| **Shareholders' Equity** | | |
| Capital stock (note 10) | **483,030** | 382,270 |
| Retained earnings | **146,859** | 111,649 |
| Foreign currency translation adjustment | **23,645** | 4,149 |
| | **653,534** | 498,068 |
| | **$1,466,573** | $1,097,951 |

Contingencies and commitments (note 13)
Subsequent events (notes 1 and 19)

Approved on behalf of the Board

**Joe S. Houssian**
Director

**David A. King**
Director

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| For the years ended June 30 | 1998 | 1997 |
|---|---|---|
| | (in thousands of dollars) | |
| Retained earnings – beginning of year | **$111,649** | $ 89,148 |
| Net income for the year | **41,030** | 27,093 |
| Dividends | **(5,820)** | (4,592) |
| Retained earnings - end of year | **$146,859** | $111,649 |

## CONSOLIDATED STATEMENTS OF CASH FLOW FROM OPERATIONS

| For the years ended June 30 | 1998 | 1997 |
|---|---|---|
| | (in thousands of dollars except per share amounts) | |
| Income before non-controlling interest and discontinued operations | **$47,224** | $32,222 |
| Items not affecting cash | | |
| Depreciation and amortization | **38,043** | 25,966 |
| Deferred income taxes | **11,018** | 487 |
| Income from equity accounted investment | **–** | (1,190) |
| Cash flow from continuing operations | **$96,285** | $57,485 |
| Cash flow per common share | **$ 2.60** | $ 1.87 |

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

| For the years ended June 30 | 1998 | 1997 |
|---|---|---|
| | (in thousands of dollars) | |
| **Cash provided by (used for)** | | |
| **Operating activities** | | |
| Cash flow from operations | **$ 96,285** | $ 57,485 |
| Recovery of costs through real estate sales | **183,567** | 95,858 |
| Increase in amounts receivable, net | **(7,436)** | (13,567) |
| Acquisition and development of properties for sale | **(261,886)** | (143,980) |
| Other changes in non-cash operating working capital | **40,284** | (21,236) |
| Cash provided by discontinued operations | **47,018** | 41,962 |
| | **97,832** | 16,522 |
| **Financing activities** | | |
| Bank and other borrowings, net | **91,572** | 30,096 |
| Issue of capital stock | **107,274** | 184,394 |
| Redemption of non-resort preferred shares | **(9,015)** | – |
| Dividends paid | **(5,820)** | (4,592) |
| Distributions to non-controlling interests | **(2,339)** | (2,579) |
| Extinguishment of warrants, options and conversion privilege | **–** | (303) |
| | **181,672** | 207,016 |
| **Investing activities** | | |
| Proceeds from (expenditures on) revenue-producing properties, net | **(13,853)** | 1,375 |
| Expenditures on ski and resort operation assets | **(127,487)** | (51,693) |
| Acquisition of ski resort assets and investments | **(72,850)** | (150,258) |
| | **(214,190)** | (200,576) |
| Increase in cash and short-term deposits | **65,314** | 22,962 |
| Cash and short-term deposits – beginning of year | **51,723** | 28,761 |
| Cash and short-term deposits – end of year | **$117,037** | $ 51,723 |

(tabular amounts in thousands of dollars unless otherwise indicated)

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

### General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada as prescribed by The Canadian Institute of Chartered Accountants ("CICA"). Information regarding United States generally accepted accounting principles as it affects the Company's consolidated financial statements is presented in note 20.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Principles of Consolidation

The consolidated financial statements include:

(a) the accounts of the Company and its subsidiaries;

(b) the accounts of all incorporated and unincorporated joint ventures and non-controlled partnerships, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

The Company's principal subsidiaries, controlled partnerships and joint ventures are as follows:

| | Percentage interest held by the Company |
|---|---|
| Intrawest Resort Corporation | 100.00 |
| Blackcomb Skiing Enterprises Limited Partnership | 77.00 |
| Whistler Mountain Resort Limited Partnership | 100.00 |
| Mont Tremblant Resorts and Company, Limited Partnership | 100.00 |
| IW Resorts Limited Partnership | 100.00 |
| Intrawest Resort Ownership Corporation | 100.00 |
| Intrawest U.S.A., Inc. | 100.00 |
| Intrawest U.S. Holdings Inc. | 100.00 |
| Stratton Ski Corporation | 100.00 |
| Snowshoe Resort, Inc. | 100.00 |
| Copper Mountain, Inc. | 100.00 |
| Great Gorge Resort, Inc. (note 2) | 100.00 |
| Mammoth Mountain Ski Area (note 2) | 58.10 |
| Keystone/Intrawest L.L.C. | 50.00 |
| Intrawest Luxembourg S.A. | 100.00 |

In connection with a covenant not to compete with Blackcomb Skiing Enterprises Limited Partnership, the Company agreed to provide Nippon Cable Co., Ltd., its minority partner in Blackcomb, with an option to acquire a 23% interest in property and assets related to Whistler Mountain Resort Limited Partnership at a price based on the terms of the Whistler acquisition (note 2(d)). The transaction closed on September 10, 1998.

### Comparative Figures

Certain comparative figures for 1997 have been reclassified to conform with the presentation for 1998.

### Ski and Resort Operations

The assets of the ski and resort operations are stated at cost less accumulated depreciation. Costs of ski lifts, area improvements and buildings are capitalized. Certain buildings, area improvements, and equipment are located on leased or licensed land. Depreciation is provided over the estimated useful lives of each asset category using the declining balance method as follows:

| | |
|---|---|
| Buildings | 3.3% - 5% |
| Ski lifts | 5% - 8% |
| Golf | 2% - 3.3% |
| Area improvements | 2% - 3.3% |
| Automotive, furniture and other equipment | 10% - 50% |
| Leased vehicles | 20% - 25% |

Inventories are recorded at the lower of cost and net realizable value, and consist primarily of retail goods, food and beverage products and mountain operating supplies.

### Properties

(a) Properties under development and held for sale

Properties under development and held for sale are recorded at the lower of cost and net realizable value. Cost includes all expenditures incurred in connection with the acquisition, development and construction of these properties. These expenditures consist of all direct costs, interest on general and specific debt and general and administrative expenses. Incidental revenue related specifically to such properties is treated as a reduction of costs.

Costs associated with the development and investigation of the vacation ownership business, including research, consulting, legal and other costs associated with the registration of the product and program, are capitalized. These costs are amortized on a straight-line basis over ten years.

Costs associated with the development of sales locations of the vacation ownership business, including operating and general and administrative costs incurred until a location is fully operational, are capitalized. Incidental revenue related specifically to a location is treated as a reduction of costs during the start-up period. These net costs are amortized on a straight-line basis over seven years. The Company provides for write-downs where the carrying value of a particular property exceeds its net realizable value.

(b) Revenue-producing properties

Revenue-producing properties are stated at the lower of cost, net of accumulated depreciation, and the net recoverable amount. Buildings are depreciated using the declining balance method at annual rates of 3.3% to 5%. Leasehold improvements and other tenant inducements are amortized using the straight-line method over the term of the lease, plus one renewal period. Furniture and equipment are depreciated on a declining balance basis at 20% per annum.

(c) Classification

Properties that are currently under development for sale and properties available for sale are classified as current assets. Related bank and other indebtedness is classified as a current liability.

### Revenue Recognition

(a) Revenue from the sale of properties is recorded when title to the completed unit is conveyed to the purchaser and the purchaser becomes entitled to occupancy.

(b) Points revenue associated with membership in the vacation ownership business of the Intrawest Resort Club (which revenue is included in real estate sales) is recognized when the purchaser has paid the amount due on closing, all contract documentation has been executed and all other significant conditions of sale are met.

(c) Revenue from revenue-producing properties is recognized upon the earlier of attaining break-even cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion. Prior to this time, the properties are categorized as properties under development, and incidental revenue related to such properties is applied to reduce development costs.

### Administrative Furniture, Equipment and Leasehold Improvements

Administrative furniture and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the declining balance method at annual rates of 20% and 30%.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold improvements are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the term of the lease, plus one renewal period.

### Deferred Financing Costs

Deferred financing costs consist of legal and other fees related to the financing of the Company's ski and resort operations. These costs are amortized over the term of the financing.

### Goodwill

Goodwill is amortized on the straight-line basis over a period of 40 years. In determining whether there is a permanent impairment in value, recoverability is based on estimated future cash flows.

### Deferred Revenue

Deferred revenue mainly comprises season pass revenue and government grants. Deferred revenue which relates to the sale of season passes is recognized throughout the season based on the number of skier visits. Deferred revenue which relates to government grants for ski and resort operation assets is recognized on the same basis as the related assets are amortized. Deferred revenue which relates to government grants for properties under development is recognized as the properties are sold.

### Income Taxes

Income taxes are provided at current rates for all items included in the statements of operations which will ultimately be included in the calculation of taxable income, regardless of the period when such items are reported for income tax purposes. The difference in the timing of recognition for accounting and income tax purposes is recorded as deferred income taxes. No adjustment is made to deferred income tax accounts for subsequent changes in income tax rates. The tax benefit of share issue costs has been recognized as a reduction of the related share issue costs.

### Foreign Currency Translation

The Company's operations in the United States are of a self-sustaining nature. Assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the weighted average rate for the year.

Cumulative unrealized gains or losses arising from the translation of the assets and liabilities of these operations are recorded as a separate component of shareholders' equity.

### Interest Allocated To Discontinued Operations

Interest allocated to discontinued operations is the total of interest on debt directly attributable to the discontinued operations and an allocation of interest on general corporate debt not directly attributable to continuing operations.

### Per Share Calculations

Income and cash flow per common share have been calculated using the weighted average number of common shares outstanding during the year.

### Cash Flow From Operations

Cash flow from continuing operations is computed as income before non-controlling interest and discontinued operations adjusted for deferred income taxes, depreciation and amortization of capital items and other non-cash items. Cash flow from continuing operations is different from cash flow from operating activities since it excludes the cash provided by or used for non-cash operating working capital accounts such as real estate inventory, amounts receivable and amounts payable. Cash flow from continuing operations is reconciled to cash flow from operating activities in the consolidated statements of changes in financial position.

## NOTE 2 ACQUISITIONS

(a) Effective February 18, 1998, the Company acquired property and assets related to Great Gorge Resort, Inc., owner of Mountain Creek, in New Jersey, U.S.A. The transaction was accounted for by the purchase method.

| | |
|---|---|
| Net assets acquired at fair market value for cash | |
| Ski and resort operations | $33,946 |
| Properties under development | 6,417 |
| Net working capital | (297) |
| | $40,066 |

(b) During fiscal 1998, the Company increased its interest in Mammoth Mountain Ski Area ("Mammoth") in California, U.S.A. from 33% to 58.1% through the acquisition of additional shares and the repurchase by Mammoth of its own common shares from other shareholders. Despite a 58.1% ownership interest, the Company has only joint control over Mammoth due to the existence of special voting rights of certain of Mammoth's minority shareholders. Therefore, effective from July 1, 1997, the Company has proportionately consolidated the results of Mammoth's operations with the operations of the Company. Prior to this date, Mammoth was accounted for as an equity investment.

| | |
|---|---|
| Net assets acquired at fair market value | |
| Ski and resort operations | $39,254 |
| Properties under development | 932 |
| Net working capital | 2,554 |
| Assumption of debt | (9,956) |
| | 32,784 |
| Cash | 5,916 |
| | $38,700 |
| Financed by | |
| Cash | $28,285 |
| Bank and other indebtedness | 10,415 |
| | $38,700 |

(c) Effective December 18, 1996, the Company acquired property and assets and assumed debt related to Copper Mountain, Inc. in Colorado, U.S.A. The transaction was accounted for by the purchase method.

| | |
|---|---|
| Net assets acquired at fair market value | |
| Ski and resort operations | $69,417 |
| Properties under development and held for sale | 41,789 |
| Net working capital | (7,702) |
| Assumption of debt | (26,989) |
| | 76,515 |
| Cash | 1,067 |
| | $77,582 |
| Financed by | |
| Cash | $19,704 |
| Bank and other indebtedness | 18,003 |
| Issue of 2,900,000 common shares | 39,875 |
| | $77,582 |

(d) Effective December 18, 1996, the Company acquired property and assets and assumed debt related to Whistler Mountain Holdings Limited in British Columbia, Canada. The transaction was accounted for by the purchase method.

| | |
|---|---|
| Net assets acquired at fair market value | |
| Ski and resort operations | $49,926 |
| Properties under development and held for sale | 25,072 |
| Goodwill | 56,009 |
| Net working capital | (7,499) |
| Assumption of debt | (51,789) |
| | $71,719 |
| Financed by | |
| Cash | $ 1,031 |
| Bank and other indebtedness | 16,100 |
| Issue of 3,970,000 common shares | 54,588 |
| | $71,719 |

(e) Effective December 21, 1996, the Company acquired property and assets and assumed debt related to Mont Ste. Marie (1984) Inc. in Quebec, Canada. The transaction was accounted for by the purchase method.

| | |
|---|---|
| Net assets acquired at fair market value for cash | |
| Ski and resort operations | $2,685 |
| Net working capital | (300) |
| Assumption of debt | (1,428) |
| | $ 957 |

## NOTE 3 DISCONTINUED OPERATIONS

The Company plans to sell all of its remaining non-resort properties. For reporting purposes, the results of operations and cash flow from operating activities of this business have been disclosed separately from those of continuing operations for the periods presented.

The results of discontinued operations, including an allocation of interest expense, are as follows:

| | 1998 | 1997 |
|---|---|---|
| Revenue | $56,895 | $51,095 |
| Loss before current income taxes | $ (1,658) | $ (872) |
| Provision for current income taxes | 300 | 330 |
| Loss from discontinued operations | $ (1,958) | $ (1,202) |

The remaining assets and liabilities of discontinued operations are as follows:

| | 1998 | 1997 |
|---|---|---|
| Current assets | | |
| Properties | $ 8,195 | $12,606 |
| Other current assets | 13,490 | 13,877 |
| Properties | 31,794 | 63,556 |
| Other non-current assets | 21,273 | 30,472 |
| Current liabilities | 6,087 | 6,121 |
| Long-term debt and other liabilities | 15,932 | 41,361 |

The cash flows from discontinued operations are as follows:

| | 1998 | 1997 |
|---|---|---|
| Cash provided by (used for) | | |
| Operating activities | $47,018 | $41,962 |
| Financing activities | (36,491) | (10,269) |
| Investing activities | (364) | 888 |
| Increase in cash and short-term deposits | $10,163 | $32,581 |

The cash flow used for financing activities in 1998 includes a $9,015,000 redemption of non-resort preferred ("NRP") shares (note 10(a)). The holders of the NRP shares are entitled to receive the net cash flow from the discontinued operations from January 1, 1997 primarily by way of redemption of their NRP shares. Annual distributions of such cash flows are payable on September 30 of each year covering the period ended on the previous June 30. The cash available to redeem NRP shares on September 30, 1998 was $20,857,000, which represents 5,460,000 NRP shares at $3.82 per share, computed as follows:

| | 1998 | 1997 |
|---|---|---|
| Cash and short-term deposits beginning of year | $13,606 | $ – |
| Increase in cash and short-term deposits during the year | 10,163 | 32,581 |
| Cash attributable to period before share capital reorganization | – | (18,975) |
| Reserve for working capital requirements at end of year | (2,912) | (4,591) |
| | $20,857 | $ 9,015 |

## NOTE 4 SKI AND RESORT OPERATIONS

| 1998 | Cost | Accumulated depreciation | Net |
|---|---|---|---|
| Ski operations | | | |
| Land | $ 70,564 | $ – | $ 70,564 |
| Buildings | 150,868 | 40,455 | 110,413 |
| Ski lifts and area improvements | 342,242 | 82,877 | 259,365 |
| Automotive, furniture and other equipment | 111,099 | 58,996 | 52,103 |
| Leased vehicles | 16,158 | 8,979 | 7,179 |
| | 690,931 | 191,307 | 499,624 |
| Resort operations | | | |
| Land | 11,431 | – | 11,431 |
| Buildings | 64,298 | 7,738 | 56,560 |
| Golf | 20,554 | 1,319 | 19,235 |
| Area improvements | 30,125 | 3,626 | 26,499 |
| | 126,408 | 12,683 | 113,725 |
| | $817,339 | $203,990 | $613,349 |

| 1997 | Cost | Accumulated depreciation | Net |
|---|---|---|---|
| Ski operations | | | |
| Land | $ 39,478 | $ – | $ 39,478 |
| Buildings | 100,292 | 17,821 | 82,471 |
| Ski lifts and area improvements | 194,087 | 32,309 | 161,778 |
| Automotive, furniture and other equipment | 48,788 | 18,034 | 30,754 |
| Leased vehicles | 13,340 | 5,861 | 7,479 |
| | 395,985 | 74,025 | 321,960 |
| Resort operations | | | |
| Land | 10,165 | – | 10,165 |
| Buildings | 44,601 | 4,876 | 39,725 |
| Golf | 19,215 | 493 | 18,722 |
| Area improvements | 18,426 | 2,355 | 16,071 |
| | 92,407 | 7,724 | 84,683 |
| | $488,392 | $81,749 | $406,643 |

The ski and resort operations have been pledged as security for certain of the Company's bank and other indebtedness (note 8).

## NOTE 5 PROPERTIES

| | | | 1998 |
|---|---|---|---|
| Properties under development and held for sale | | | |
| Acquisition costs | | | $199,650 |
| Interest | | | 20,754 |
| Development costs | | | 179,130 |
| Administrative expenses | | | 22,164 |
| Net rental income | | | – |
| | | | 421,698 |
| | Cost | Accumulated depreciation | Net |
| Revenue-producing properties | | | |
| Land | $ 9,535 | $ – | 9,535 |
| Buildings | 50,497 | 7,836 | 42,661 |
| Leasehold improvements and equipment | 3,555 | 1,621 | 1,934 |
| | $63,587 | $9,457 | 54,130 |
| | | | $475,828 |

## NOTE 5 PROPERTIES (continued)

| | 1997 |
|---|---|
| Properties under development and held for sale | |
| Acquisition costs | $140,652 |
| Interest | 18,230 |
| Development costs | 157,174 |
| Administrative expenses | 15,807 |
| Net rental income | (1,430) |
| | 330,433 |

| | Cost | Accumulated depreciation | Net |
|---|---|---|---|
| Revenue-producing properties | | | |
| Land | $ 9,664 | $ – | 9,664 |
| Buildings | 60,720 | 6,328 | 54,392 |
| Leasehold improvements and equipment | 7,868 | 3,655 | 4,213 |
| | $78,252 | $9,983 | 68,269 |
| | | | $398,702 |

Properties are classified as follows for balance sheet purposes:

| | 1998 | 1997 |
|---|---|---|
| Current assets | | |
| Resort | **$177,296** | $115,062 |
| Discontinued operations | **8,195** | 12,606 |
| Long-term assets | | |
| Resort | **258,543** | 207,478 |
| Discontinued operations | **31,794** | 63,556 |
| | **$475,828** | $398,702 |

During the year ended June 30, 1998, $14,491,000 (1997 - $10,412,000) of interest (note 14) and $10,935,000 (1997 - $8,941,000) of administrative expenses were capitalized to properties.

Properties have been pledged as security for certain of the Company's bank and other indebtedness (note 8).

## NOTE 6 AMOUNTS RECEIVABLE

| | 1998 | 1997 |
|---|---|---|
| Receivable from sales of real estate | **$ 6,024** | $15,132 |
| Ski and resort operation receivables | **16,136** | 12,906 |
| Loans, mortgages and notes receivable (note 18(a)) | **55,093** | 53,053 |
| Funded senior employee share purchase plan (note 10(e)) | **1,206** | 1,236 |
| Other accounts receivable | **20,817** | 12,326 |
| | **99,276** | 94,653 |
| Less: current portion | **55,664** | 53,573 |
| | **$43,612** | $41,080 |

Receivables are due approximately as follows:

| | |
|---|---|
| Year ending June 30, 1999 | $55,664 |
| 2000 | 18,139 |
| 2001 | 1,405 |
| 2002 | 2,011 |
| 2003 | 4,201 |
| Subsequent to 2003 | 17,856 |
| | $99,276 |

The loans, mortgages and notes receivable bear interest at both fixed and floating rates which averaged 10.39% per annum as at June 30, 1998 (1997 - 8.51%). These amounts have been pledged as security for certain of the Company's bank and other indebtedness (note 8).

## NOTE 7 OTHER ASSETS

(a) Current

| | 1998 | 1997 |
|---|---|---|
| Ski operation inventories | **$17,036** | $11,978 |
| Restricted deposits | **17,357** | 7,995 |
| Prepaid expenses and other | **13,316** | 6,607 |
| | **$47,709** | $26,580 |

(b) Long-term

| | 1998 | 1997 |
|---|---|---|
| Administrative furniture, equipment and leasehold improvements, at cost less accumulated depreciation of $4,202,000 (1997 - $4,696,000) | **$ 5,458** | $ 5,169 |
| Deferred financing and other costs | **8,318** | 4,701 |
| Investments, at cost | **4,545** | 8,794 |
| Deposit on planned acquisition (US $5,000,000 – note 19(a)) | **7,559** | – |
| Other | **8,334** | 3,200 |
| Investment in Mammoth Mountain Ski Area, at equity (note 2(b)) | **–** | 18,511 |
| | **$34,214** | $40,375 |

At June 30, 1997, investments included a limited partnership interest in the amount of $7,500,000 acquired as partial consideration in connection with the sale of a non-resort property. This interest was sold during fiscal 1998.

## NOTE 8 BANK AND OTHER INDEBTEDNESS

The Company has obtained financing for its operations from various financial institutions by pledging individual assets as security for such financing. Security for general corporate debt is provided by general security which includes a floating charge on the Company's assets and undertakings, fixed charges on real estate properties, and assignment of mortgages and notes receivable. The following table summarizes the primary security provided by the Company, where appropriate, and indicates the applicable type of financing, maturity dates and the weighted average interest rate at June 30, 1998.

| | Maturity dates | Weighted average interest rate | 1998 | 1997 |
|---|---|---|---|---|
| Ski and resort operations | | | | |
| Mortgages and bank loans | Demand-2017 | 6.67% | **$285,520** | $279,732 |
| Obligations under capital leases | 1999-2002 | 8.29% | **7,415** | 9,370 |
| | | | **292,935** | 289,102 |
| Properties | | | | |
| Interim financing on properties under development and held for sale | 1999-2011 | 7.68% | **109,123** | 133,743 |
| Mortgages on revenue-producing properties | 1999-2034 | 7.68% | **24,223** | 37,865 |
| | | | **133,346** | 171,608 |
| General corporate debt | Demand-2002 | 7.02% | **36,542** | 4,046 |
| Unsecured debentures | 2003 | 7.26% | **150,000** | 25,000 |
| | | 7.07% | **612,823** | 489,756 |
| Less: current portion | | | **97,890** | 90,738 |
| | | | **$514,933** | $399,018 |

Principal repayments and the components related to either floating or fixed interest rates are as follows:

| | Interest Rates | | Repayments |
|---|---|---|---|
| | Floating | Fixed | |
| Year ending June 30, 1999 | $ 64,424 | $ 33,466 | $ 97,890 |
| 2000 | 12,688 | 37,477 | 50,165 |
| 2001 | 12,268 | 11,632 | 23,900 |
| 2002 | 111,128 | 43,447 | 154,575 |
| 2003 | 69,906 | 143,372 | 213,278 |
| Subsequent to 2003 | 8,238 | 64,777 | 73,015 |
| | $278,652 | $334,171 | $612,823 |

The Company has entered into a swap agreement to fix the interest rate on a portion of its floating rate debt. The Company has $30,000,000 of bank loans swapped against debt with a fixed interest rate of 8.5% per annum, including applicable stamping fees, under an agreement expiring in 2001.

Bank and other indebtedness of $297,420,000 (1997 - $194,447,000) is guaranteed by the Company in addition to being secured by the specific property or asset.

Bank and other indebtedness includes indebtedness in the amount of $98,026,000 (1997 - $207,800,000), which is repayable in United States dollars of $66,784,000 (1997 - $150,525,000).

The Company is committed to capital lease obligations as follows:

| | 1998 | 1997 |
|---|---|---|
| Minimum lease payments | **$8,271** | $10,526 |
| Less: interest | **856** | 1,156 |
| Lease principal obligation | **$7,415** | $ 9,370 |

Future minimum lease payments are as follows:

| | |
|---|---|
| Year ending June 30, 1999 | $ 4,425 |
| 2000 | 1,692 |
| 2001 | 780 |
| 2002 | 434 |
| 2003 | 84 |
| | $ 7,415 |

## NOTE 9 GOVERNMENT ASSISTANCE

The federal government and the Province of Quebec have granted financial assistance to the Company in the form of interest-free loans and grants for the construction of specified four-season tourist facilities at Mont Tremblant. The loans, which are fully advanced, totalled $14,300,000 and are repayable over seven years starting in 2000. The grants, which will total $22,315,000 when they are fully advanced, amounted to $19,781,000 at June 30, 1998 (1997 - $15,538,000). During the year ended June 30, 1998, grants received of $1,069,000 (1997 - $4,741,000) were credited as follows: $302,000 (1997 - $476,000) to ski and resort operation assets, $339,000 (1997 - $90,000) to properties and $428,000 (1997 - $4,175,000) to cost of real estate sales.

## NOTE 10 CAPITAL STOCK

(a) Share Capital Reorganization

Effective March 14, 1997, the Company completed a reorganization of its share capital designed to separate the remaining non-resort real estate assets from the rest of the Company's business. Under the reorganization, each existing common share was exchanged for one new common share and one NRP share. The new common shares have the same attributes as the old common shares.

The NRP shares were initially recorded at a value of $88,543,000 ($3.82 per share) before deduction of issue costs of $329,000, equal to the book value of the net equity of the non-resort assets at December 31, 1996, and the book value of the common shares was reduced by the same amount. The Company expects that the non-resort assets will be disposed of in an orderly manner and the net cash flow from these assets distributed to the NRP shareholders, primarily by way of redemption of their shares as described in note 3. The amount ultimately realized will be subject to prevailing real estate market conditions. As at June 30, 1998, the book value of the net equity of the remaining non-resort assets was $76,502,000 (1997 - $86,635,000).

All stock option information is stated to reflect the share capital reorganization.

(b) Capital Stock

The Company's capital stock comprises the following:

| | 1998 | 1997 |
|---|---|---|
| Common shares | **$402,582** | $293,649 |
| NRP shares | **80,448** | 88,621 |
| | **$483,030** | $382,270 |

i. Common Shares

Authorized - 50,000,000 without par value.

Issued -

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Number of common shares | Amount | Number of common shares | Amount |
| Balance at beginning of year | 34,281,536 | **$293,649** | 23,063,490 | $198,179 |
| Issued for cash, net of issue costs | 3,850,000 | **106,268** | 4,000,000 | 86,129 |
| Issued for acquisitions (note 2) | – | – | 6,870,000 | 94,463 |
| Funded senior employee share purchase and stock option plans | 228,250 | **2,665** | 224,900 | 2,488 |
| Issued on exercise of option | – | – | 123,146 | 1,236 |
| Extinguishment of warrants, options and conversion privilege | – | – | – | (303) |
| Reorganization of shares | – | – | – | (88,543) |
| Balance at end of year | 38,359,786 | **$402,582** | 34,281,536 | $293,649 |

ii. NRP Shares

Authorized - 50,000,000 without par value, redeemable at $3.82 per share except for the final redemption which shall be subject to a premium or discount based on available cash flow relating to the non-resort assets.

Issued -

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Number of NRP shares | Amount | Number of NRP shares | Amount |
| Balance at beginning of year | 23,547,936 | **$88,621** | – | $ – |
| Issued on reorganization of share capital, net of issue costs | – | – | 23,198,190 | 88,214 |
| Issued on exercise of option | – | – | 123,146 | 134 |
| Stock option plan | 623,975 | **842** | 226,600 | 273 |
| Redemption | (2,360,000) | **(9,015)** | – | – |
| Balance at end of year | 21,811,911 | **$80,448** | 23,547,936 | $88,621 |

iii. Preferred Shares

Authorized - 10,000,000 without par value.

Issued - nil

(c) Stock Options

The Company has a stock option plan which provides for grants to officers and employees of the Company and its subsidiaries of options to purchase common shares and NRP shares of the Company. Options granted under the stock option plan vest equally over a period of five years. At June 30, 1998, stock options outstanding totalled 2,894,650 common shares, exercisable at prices from $9.51 to $29.05, expiring up to 2008 and 1,157,925 NRP shares exercisable at prices from $1.04 to $2.20, expiring up to 2001. During the year ended June 30, 1998, options were exercised for 224,650 common shares and 623,975 NRP shares.

## NOTE 10 CAPITAL STOCK (continued)

The Company granted to a property lender (note 18(b)) the right to convert its loan of $4,300,000 on August 31, 1999 into 318,519 common shares at a conversion price of $12.18 per common share and 318,519 NRP shares at a conversion price of $1.32 per NRP share. During the year ended June 30, 1998, the property was sold and the Company repaid the debt which extinguished the conversion privilege.

In a prior year, the Company granted an option to purchase 123,146 common shares at a price of $10.035 per common share and 123,146 NRP shares at a price of $1.09 per NRP share in connection with a loan guarantee for the financing of certain capital improvements. During the year ended June 30, 1997, this option was exercised.

(d) Employee Share Purchase Plan

The employee share purchase plan permits full-time employees of the Company and its subsidiaries and limited partnerships to purchase common shares through payroll deductions. The Company contributes $1 for every $3 contributed by an employee. To June 30, 1998, a total of 65,809 (1997 - 65,809) common shares have been issued from treasury under this plan. The Board of Directors has authorized and reserved a further 100,000 common shares for issuance under this plan.

(e) Funded Senior Employee Share Purchase Plan

The Company has a funded senior employee share purchase plan which provides for loans to be made to designated eligible employees to be used to subscribe for common shares. At June 30, 1998, loans to employees under the funded senior employee share purchase plan amounted to $1,206,000 with respect to 134,750 common shares and 110,737 NRP shares (1997 - $1,236,000 with respect to 136,850 common shares and 128,750 NRP shares). The loans are interest-free, secured by a promissory note and a pledge of the shares and mature by 2005. The Board of Directors has authorized and reserved a further 100,000 common shares for issuance under this plan.

## NOTE 11 INCOME TAXES

(a) Provision for Income Taxes

| | 1998 | 1997 |
|---|---|---|
| Current | $ 2,413 | $6,580 |
| Deferred | 11,018 | 487 |
| | $13,431 | $7,067 |

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

| | 1998 | 1997 |
|---|---|---|
| Statutory rate | 45.6% | 45.6% |
| Income tax charge at statutory rate | $26,903 | $17,510 |
| Non-deductible depreciation and amortization | 6,242 | 782 |
| Large Corporations Tax | 1,061 | 1,437 |
| Taxes related to non-controlling interest share of earnings | (1,931) | (1,532) |
| Taxes related to equity accounted investment | – | (542) |
| Foreign taxes different from statutory rate | (5,755) | (5,576) |
| Additional amounts deductible related to properties and ski and resort operation assets (see (b) below) | (13,674) | (5,735) |
| Other | 885 | 1,053 |
| | 13,731 | 7,397 |
| Less: income taxes related to discontinued operations | 300 | 330 |
| Provision for income taxes | $13,431 | $ 7,067 |

(b) Certain properties and ski and resort operation assets were acquired having a tax value in excess of their recorded value and certain subsidiaries of the Company have losses available to carry forward for income tax purposes for which the potential income tax benefits have not been recognized. At June 30, 1998, approximately $24,131,000 of related benefits have not been recognized for accounting purposes.

## NOTE 12 JOINT VENTURES

The following amounts represent the Company's proportionate interest in joint ventures and non-controlled partnerships including Mammoth and Keystone/Intrawest L.L.C.:

| | 1998 | 1997 |
|---|---|---|
| Properties, current | $ 37,853 | $ 28,671 |
| Other current assets | 26,630 | 8,572 |
| | 64,483 | 37,243 |
| Current liabilities | (38,627) | (31,469) |
| Working capital | 25,856 | 5,774 |
| Ski and resort operations | 77,315 | – |
| Properties, non-current | 122,163 | 101,223 |
| Long-term debt | (67,202) | (59,434) |
| Other, net | (9,706) | 379 |
| | $148,426 | $ 47,942 |

| | 1998 | 1997 |
|---|---|---|
| Revenue | $ 89,934 | $ 21,457 |
| Expenses | 75,886 | 19,646 |
| Income from continuing operations | 14,048 | 1,811 |
| Results of discontinued operations | (216) | 996 |
| | $ 13,832 | $ 2,807 |

| | 1998 | 1997 |
|---|---|---|
| Cash provided by (used for) | | |
| Operating activities | $ (20,076) | $ 14,256 |
| Financing activities | 29,410 | 6,324 |
| Investing activities | (6,797) | (1,064) |
| Increase in cash and short-term deposits | $ 2,537 | $ 19,516 |

The amount payable to the Company's joint venture partners in various properties, net of amounts receivable, results from the use of the proportionate consolidation method of accounting. Payments to the joint venture partners are governed by the terms of the respective joint venture agreement.

## NOTE 13 CONTINGENCIES AND COMMITMENTS

(a) The Company holds licences and land leases with respect to certain of its ski operations. These leases expire at various times between 2032 and 2051 and provide for annual payments generally in the range of 2% of defined gross revenues.

(b) The Company has estimated costs to complete ski and resort operation assets and properties currently under construction and held for sale amounting to $286,632,000 at June 30, 1998 (1997 - $154,654,000). These costs are substantially covered by existing financing commitments.

(c) The Company has entered into various operating lease commitments, aggregating $17,749,000 (1997 - $15,110,000), payable as follows:

| | |
|---|---|
| Year ending June 30, 1999 | $ 4,040 |
| 2000 | 3,798 |
| 2001 | 3,472 |
| 2002 | 2,382 |
| 2003 | 1,745 |
| Subsequent to 2003 | 2,312 |
| | $17,749 |

(d) The Company is contingently liable for indebtedness at June 30, 1998 of $28,250,000 which relates to certain non-resort properties under development sold during the year ended September 30, 1994 (note 18(a)). The purchasers of these properties have provided guarantees to the Company in respect of the indebtedness and have indemnified the Company for any potential losses resulting from the contingent liability.

(e) The Company is contingently liable for the obligations of certain joint ventures and limited partnerships. The assets of these joint ventures and limited partnerships, which in all cases exceed the obligations, are available to satisfy such obligations.

(f) The Company has received reassessments for the 1986 to 1989 taxation years that significantly increase Blackcomb Skiing Enterprises Ltd.'s income for tax purposes. The Company has filed notices of objection to the reassessments. In addition, Blackcomb Skiing Enterprises Ltd. has filed amendments to its 1982 to 1991 income tax returns to claim additional capital cost allowance to reduce the proposed increase in income for tax purposes. The potential tax liability is approximately $5,640,000 which is composed of current taxes of $2,867,000, including interest, and deferred income taxes of $2,773,000. In March 1994 the Company paid $1,585,000 to Revenue Canada, Taxation as required by legislation when a notice of objection is filed. This amount is included in non-current amounts receivable as the outcome of these reassessments cannot be determined at this time.

(g) The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Data-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## NOTE 14 INTEREST EXPENSE

| | 1998 | 1997 |
|---|---|---|
| Total interest incurred | $42,006 | $35,535 |
| Less: interest capitalized to ski and resort operation assets | 1,479 | 771 |
| interest capitalized to properties, net of capitalized interest recorded in real estate cost of sales of $4,830,000 and in discontinued operations of $120,000 (1997 - $1,271,000 and $784,000, respectively) | 9,541 | 8,357 |
| | $30,986 | $26,407 |

| | 1998 | 1997 |
|---|---|---|
| Interest was charged to income as follows: | | |
| Real estate costs | $ 4,830 | $ 1,271 |
| Interest expense | 22,881 | 20,914 |
| Discontinued operations | 3,275 | 3,277 |
| Ski operations - employee housing | – | 945 |
| | $30,986 | $26,407 |

Real estate costs and discontinued operations also include $6,777,000 (1997 - $3,430,000) and $2,455,000 (1997 - $3,518,000), respectively, of interest incurred in prior years.

## NOTE 15 FINANCIAL INSTRUMENTS

(a) Fair Value

The Company has various financial instruments including cash and short-term deposits, amounts receivable, loans, mortgages and notes receivables, amounts payable and accrued liabilities. Due to their short-term maturity or, in the case of loans, mortgages and notes receivable, their market comparable interest rates, the instruments' book value approximates fair value. Debt and interest swap agreements are also financial instruments. The fair values at June 30, 1998 and 1997 were estimated by discounting future cash flows at estimated market rates and are summarized as follows:

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Debt and interest swap agreements | $612,823 | $605,153 | $489,756 | $475,063 |

(b) Interest Rate Risk

As described in note 8, certain of the Company's debt instruments bear interest at floating rates. Fluctuations in these rates will impact the cost of financing incurred in the future.

(c) Credit Risk

The Company's products and services are purchased by a wide range of customers in different regions of North America and elsewhere. Due to the nature of its operations, the Company has no concentrations of credit risk.

## NOTE 16 PENSION PLANS

Effective January 1, 1995, the Company introduced two defined benefit pension plans for certain of its senior executives. The value of the pension fund assets at June 30, 1998 and the present value of the accrued pension benefits attributed to services rendered up to June 30, 1998 are $2,134,000 and $5,031,000, respectively (1997 - $1,386,000 and $3,764,000, respectively).

## NOTE 17 SEGMENTED INFORMATION

Industry and geographical information related to the Company's continuing operations is as follows:

(a) Industry Segments

| | 1998 | 1997 |
|---|---|---|
| Revenue | | |
| Ski and resort operations | $ 370,307 | $ 265,492 |
| Real estate operations | 231,434 | 123,483 |
| Consolidated | $ 601,741 | $ 388,975 |
| Operating profit after deducting depreciation and amortization | | |
| Ski and resort operations | $ 52,116 | $ 46,437 |
| Real estate operations | 41,780 | 22,682 |
| | 93,896 | 69,119 |
| Less: unallocated corporate expenses | | |
| Interest | (22,881) | (20,914) |
| General and administrative | (10,360) | (8,916) |
| Consolidated | $ 60,655 | $ 39,289 |
| Identifiable assets | | |
| Ski and resort operations | $ 805,197 | $ 576,991 |
| Real estate operations | 562,855 | 400,449 |
| Discontinued operations | 98,521 | 120,511 |
| Consolidated | $1,466,573 | $1,097,951 |
| Capital acquisitions | | |
| Ski and resort operations | $ 127,487 | $ 51,693 |
| Depreciation and amortization | | |
| Ski and resort operations | $ 33,960 | $ 23,204 |
| Real estate operations | 2,162 | 1,740 |
| Unallocated corporate | 1,921 | 1,022 |
| Consolidated | $ 38,043 | $ 25,966 |

## NOTE 17 SEGMENTED INFORMATION (continued)

(b) Geographic Segments

| | 1998 | 1997 |
|---|---|---|
| Revenue | | |
| Canada | $ 321,518 | $ 255,016 |
| United States | 280,223 | 133,959 |
| Consolidated | $ 601,741 | $ 388,975 |
| Operating profit after deducting depreciation and amortization | | |
| Canada | $ 37,927 | $ 33,143 |
| United States | 22,728 | 6,146 |
| Consolidated | $ 60,655 | $ 39,289 |
| Identifiable assets | | |
| Canada | $ 621,903 | $ 593,134 |
| United States | 746,149 | 384,306 |
| Discontinued operations | 98,521 | 120,511 |
| Consolidated | $1,466,573 | $1,097,951 |

## NOTE 18 RELATED PARTY TRANSACTIONS

(a) Effective April 1, 1994, the Company sold substantially all of its industrial and non-resort residential properties under development in British Columbia and Washington State to two partnerships formed by a group of investors. The managing general partners of the partnerships are corporations controlled by an officer and director of the Company.

The consideration for the sale included a vendor takeback note for $31,700,000 which was originally scheduled to be fully repaid, with interest at 10.75% per annum, in semi-annual instalments by September 30, 1997. To June 30, 1998, the partnerships had repaid $15,660,000 (1997 - $12,160,000) and the repayment of the balance, with interest at 10% per annum, has been renegotiated as follows:

| | |
|---|---|
| September 30, 1998 | $ 3,500 |
| March 31, 1999 | 3,500 |
| September 30, 1999 | 3,500 |
| March 31, 2000 | 5,540 |
| | $16,040 |

Subject to full repayment by March 31, 2000 and a 1% extension fee, the partnerships have the right to defer any principal payment for up to six months so long as only one payment is deferred at any one time. The partnerships paid $1,859,000 of interest on the note receivable during the year ended June 30, 1998, and at June 30, 1998, $405,000 (1997 - $523,000) of interest was accrued and outstanding.

The Company has committed to provide the partnerships various credit facilities to September 30, 1999, including a $7,000,000 revolving line of credit and a non-revolving loan for $1,800,000, to fund costs in connection with a specific project. These loans earn interest at prime plus 2%. At June 30, 1998, $8,771,000 (1997 - $8,421,000) was advanced under these facilities and accrued and unpaid interest amounted to $62,000. In addition, the Company has agreed to provide financial assistance by way of continuing liability under the assumed bank indebtedness and liability in respect of certain letters of credit. The Company earns fees in consideration for this financial assistance. The partnerships have guaranteed repayment of these facilities and indemnified the Company for any losses under them.

The Company has engaged the partnerships to provide specified services in connection with the development, property management, marketing and sale of its remaining non-resort properties. For the year ended June 30, 1998, the Company incurred net costs of $1,465,000 (1997 - $2,353,000) in respect of these services.

(b) Bank and other indebtedness at June 30, 1997 included the following amounts due to significant corporate shareholders of the Company who were represented on the Company's Board of Directors:

i. a convertible loan of $4,300,000, bearing interest at 8% per annum, collateralized by a second mortgage over a non-resort property and the limited partnership interest (note 7);

ii. a loan of US $1,284,000, bearing interest at prime plus 1.25% per annum, collateralized by a property under development.

(c) All related party transactions described above have been recorded at the amounts paid or received as established and agreed upon by the Company and the related party.

## NOTE 19 SUBSEQUENT EVENTS

(a) On July 13, 1998, the Company acquired 100% of the shares of Sandestin Resorts, Inc., owner of Sandestin Resort in Florida, U.S.A. The purchase price of the shares acquired is approximately US $140,000,000 which was financed by a combination of bank and other indebtedness of US $12,500,000 and cash.

(b) On July 16, 1998, the Company acquired approximately 16% of the common shares of Compagnie des Alpes, a French company which has ownership interests in several resorts located in France and Italy. The purchase price of the shares acquired is $35,277,000 for which the Company paid cash.

(c) On July 23, 1998, the Company acquired the assets and assumed certain liabilities of the Raven Golf Group, including two golf courses in Arizona, U.S.A. The purchase price of the net assets acquired is approximately US $30,800,000 which was financed by a combination of bank and other indebtedness of US $5,000,000 and cash.

(d) On August 19, 1998, the Company issued US $125,000,000 of 9.75% unsecured senior notes due August 15, 2008 for net proceeds of US $120,551,000. The debentures have been priced to yield 10%.

## NOTE 20 DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The principles adopted in these financial statements conform in all material respects to those generally accepted in the United States and the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") except as summarized below:

| | 1998 | 1997 |
|---|---|---|
| Income from continuing operations in accordance with Canadian GAAP | $42,988 | $28,295 |
| Effects of differences in accounting for: | | |
| Extinguishment of options and warrants (b) | – | (303) |
| Investment income (c) | – | (95) |
| Cost of sales pursuant to SFAS 109 (g) | (1,234) | (258) |
| Depreciation pursuant to SFAS 109 (g) | (831) | (335) |
| Amortization of negative goodwill pursuant to SFAS 109 (g) | 5,920 | 1,457 |
| Provision for deferred income taxes pursuant to SFAS 109 (g) | (9,942) | (652) |
| Income from continuing operations in accordance with United States GAAP | 36,901 | 28,109 |

all FAS 109

| | 1998 | 1997 |
|---|---|---|
| Results of discontinued operations in accordance with Canadian GAAP | $ (1,958) | $ (1,202) |
| Effects of differences in accounting for: | | |
| Depreciation (a) | (60) | (760) |
| Financial instruments (f) | 272 | 118 |
| Income tax effect of depreciation adjustment | 24 | 304 |
| Results of discontinued operations in accordance with United States GAAP | (1,722) | (1,540) |
| Net income in accordance with United States GAAP | 35,179 | 26,569 |
| Opening retained earnings in accordance with United States GAAP (d) | 100,781 | 78,804 |
| Common share dividends | (5,820) | (4,592) |
| Closing retained earnings in accordance with United States GAAP | $130,140 | $100,781 |
| Weighted average number of shares outstanding and common stock equivalents (in thousands) | 35,575 | 28,674 |
| Income per common share (primary and fully diluted; in dollars) | | |
| Income from continuing operations | $1.04 | $0.98 |
| Net income | $1.04 | $1.01 |
| Capital stock in accordance with Canadian GAAP | 483,030 | 382,270 |
| Effects of differences in accounting for: | | |
| Extinguishment of options and warrants (b) | 2,153 | 2,153 |
| Shareholder loans (e) | (1,206) | (1,236) |
| Financial instruments (f) | (1,627) | (1,627) |
| Capital stock in accordance with United States GAAP | 482,350 | 381,560 |
| Closing retained earnings in accordance with United States GAAP | 130,140 | 100,781 |
| Foreign currency translation adjustment | 23,645 | 4,149 |
| Shareholders' equity in accordance with United States GAAP | $636,135 | $486,490 |

(a) Depreciation

Certain of the Company's revenue-producing properties are depreciated using the sinking fund method of depreciation. This method is not allowed under United States GAAP, and accordingly depreciation has been recalculated over the estimated useful life (25 - 40 years) of each property using the straight-line method.

The net impact is a reduction of $938,000 at June 30, 1998 (1997 - $938,000) in resort properties and a reduction of $2,821,000 at June 30, 1998 (1997 - $2,761,000) in non-resort properties.

(b) Extinguishment of Options and Warrants

Payments made to extinguish options and warrants can be treated as capital items under Canadian GAAP. These payments would be treated as income items under United States GAAP.

(c) Investment Income

Earnings of equity accounted investees have not been fully tax effected for Canadian GAAP. Under United States GAAP, these earnings must be tax effected, normally using capital gains rates. Based on United States tax regulations, additional tax of $nil would have been recognized in the year ended June 30, 1998 (1997 - $95,000).

(d) Retained Earnings

Opening retained earnings in accordance with United States GAAP for the year ended June 30, 1997 includes the effects of:

i. recalculating depreciation expense as described in (a). The net decrease in retained earnings was $1,763,000.

ii. adopting SFAS 109 as described in (g). The net decrease in retained earnings was $7,598,000.

iii. tax effecting the earnings of equity accounted investees as described in (c). The net decrease in retained earnings was $370,000.

iv. treating payments made to extinguish options and warrants as income items as described in (b). The net decrease in retained earnings was $1,850,000.

v. classifying convertible debt instruments as liabilities rather than as equity as described in (f). The net increase in retained earnings was $1,237,000.

(e) Shareholder Loans

The Company accounts for loans provided to senior employees for the purchase of shares as amounts receivable. Under United States GAAP, these loans, totalling $1,206,000 and $1,236,000 as at June 30, 1998 and 1997, respectively, would be deducted from share capital.

(f) Financial Instruments

Under Canadian GAAP, the components of convertible debt instruments are classified as a liability or as equity in accordance with the substance of the contractual arrangement (note 18(b)). The interest expense included in the loss from discontinued operations would not exist under United States GAAP as there is no such requirement.

(g) Income Taxes

The Company has adopted Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes," for the financial statement amounts presented under United States GAAP. SFAS 109 requires that deferred tax liabilities or assets be recognized for the difference between assigned values and tax bases of assets and liabilities acquired pursuant to a business combination except for non tax deductible goodwill and unallocated negative goodwill. The effect of adopting SFAS 109 increases the carrying values of certain balance sheet amounts at June 30, 1998 as follows:

| | |
|---|---|
| Ski and resort assets | $20,143 |
| Goodwill | 3,465 |
| Properties | 2,551 |
| Deferred income tax asset | 4,404 |
| Deferred income tax liability | 44,036 |

(h) Information Relating to Cash Flow

The bank and other indebtedness and issue of common shares related to the financing of the acquisitions described in notes 2(b), (c) and (d) are non-cash components of the acquisitions and under United States GAAP would not be included as financing and investing activities. Accordingly, financing and investing cash flows would each be decreased by $10,415,000 (1997 - $128,566,000).

(i) Joint Ventures

In accordance with Canadian GAAP, joint ventures are required to be proportionately consolidated regardless of the legal form of the entity. Under United States GAAP, incorporated joint ventures are required to be accounted for by the equity method. However, in accordance with practices prescribed by the SEC, the Company has elected for the purpose of this reconciliation to account for incorporated joint ventures by the proportionate consolidation method.

(j) Stock Compensation

The Company has elected to account for stock compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".


## DIRECTORS

1. Audit Committee 2. Corporate Governance Committee 3. Human Resources Committee

(1) **Joe S. Houssian**
Chairman, President and
Chief Executive Officer
Intrawest Corporation

(2) **Daniel O. Jarvis**
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Intrawest Corporation

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Intrawest Corporation

(10) **Nicholas C.H. Villiers**[2]
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RBC Dominion Securities Inc.

***Charles E. Young**[1,3]
President
Marin Investments Limited

*not present in photo

## CORPORATE OFFICERS

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Vice President and
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**Daniel O. Jarvis**
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**Michael W. Davis**
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Operations, Whistler/Blackcomb

**Bob A. Fries**
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**Larry Lippon**
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Golf Group

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**Harry B. Mosgrove**
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**Steve Rice**
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**Robin R. Smith**
President, Mountain Creek

**Jeff Stipec**
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**Graham R. Wood**
Vice President and
General Manager, Panorama

**Michael Stange**
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Executive Vice President

**René L. Cardinal**
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**Barbara J. Jackson**
Vice President, Guest Experience
and Communications

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**Justin W. Smart**
Vice President, Stratton

**William R. Green**
Vice President, Tremblant

**Douglas Ogilvy**
Vice President, Whistler

## CORPORATE INFORMATION

### Auditors
KPMG, Vancouver,
British Columbia

### Transfer Agent and Registrar
CIBC Mellon Trust Company at its principal offices in Vancouver, Calgary, Toronto and Montreal

### Stock Exchange Listings and Symbols
New York Stock Exchange (IDR)
The Toronto Stock Exchange (ITW)
The Montreal Exchange (ITW)

### Shareholder Information
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### Annual General Meeting
The Annual General Meeting of Shareholders will be held on Monday, November 16, 1998 at 11:00 a.m. in the Continental C Room of The Westin Hotel, Tabor Center, Denver, Colorado.

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